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JULY, 1950

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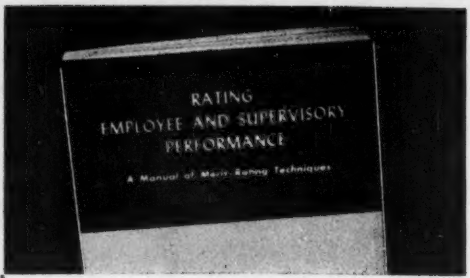

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General Management

American Capitalism: Where Are We Going?

WHAT IS LIKELY TO HAPPEN to the organization of the American economy during the next generation? Economic institutions are constantly evolving. What comes after capitalism? Is it socialism, a planned economy, or something else?

The answer is that neither socialism nor a planned economy seems to be immediately ahead. What, then, is just ahead?

A gradual increase is to be expected in the number of free or nearly free services provided by government. This trend has been going on for generations and it will be encouraged, not discouraged, by the general rise that is to be expected in per capita output. But an increase in free services is not socialism. Socialism in the twentieth century faces the tremendous disadvantage of being in actual operation on a considerable scale in several countries. Hence it is a reality, not a Utopia. Its limitations and its inadequacies are made evident by actual practice. Consequently, I do not expect to see the public ownership of industry spread except where there is some special reason for it. Enterprises connected with regional development and with atomic energy will be publicly owned and may also be publicly operated. In some declining industries, public ownership may bail out private enterprise. The railroads may end up in public hands for this reason. Finally, public ownership may become important in industries which need to be subsidized. Housing is an example. But the economy which develops will not by and large be socialist.

Nor is a planned economy likely. There are two kinds of planned economy: (1) an economy in which a national economic budget is planned and enforced, and (2) one in which activities are guided by a large and consistent body of economic policies. Certainly if planning of the first sort is developed, one would expect it to grow up first in rather small countries with a limited number of industries and with the necessity of rationing foreign exchange. The United States offers about the least favorable conditions for the development and enforcement of a national economic budget, such as would exist if foreign exchanges were scarce. The extraordinary variety of industries, the rapidity of technological change, and the enormous volume of highly optional expenditures made by consumers who are thus enabled to shift quickly from one good to another create extremely difficult conditions for operating a national economic budget. A plan would be obsolete before the year was over and by becoming obsolete would cause many difficulties. Even quarterly revisions would not make it work.

As for planning in the second sense, one may be sure that the exigencies of politics will prevent consistent economic policies. The only consistency in public policies is that they appeal to voters or to various groups of voters. They represent political planning, not economic planning.

Though the development of a truly planned economy is not likely, more and more economic decisions will be made by various government agencies. The number of prices which are affected more or less directly by government decisions will slowly increase. I see no prospect, for example, of a substantial drop in the number of prices which are subject to government-imposed ceilings or floors. Subsidies of one kind or another will probably increase rather than diminish. Transfer payments of various kinds will be a

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larger part of personal incomes. The number of highly regulated industries will probably increase. Over-the-road trucking, radio, investment banking, and air transport are recent additions to the number of highly regulated industries. There is at least a good prospect that two more industries—consumer credit and agriculture—will be added to the list.

The important fact, however, is that the slow growth of centralized decision-making does not mean that the economy is about to lose its most unique and most valuable characteristic, namely, decentralized decision-making. The decisions about consumption made by tens of millions of consumers and the decisions about production made by millions of business enterprises will continue to be the most important activities in the economy. Though these decisions will be made within a slowly growing framework of public policies, the economy will continue to be guided in the main by the preferences and knowledge of millions of people who are close to the facts. There will still be ample opportunity for business concerns to develop new markets, to develop new processes, and to adapt themselves to new conditions in their own way. These are the characteristics of the economy which make it extraordinarily adaptable, which give it remarkable capacity to generate innovations, which provide it with dynamic drive.

Decentralized decision-making has proved in this country to be a hardy plant. It has shown great capacity to survive in a changing world. Perhaps its greatest strength is the excellent chance which it gives to minority views on business policy or technological policy. No matter how many enterprises there may be in an industry, let only one management be convinced that an idea is good, and the idea will be tried out. I see no prospect that decentralized decision-making is about to suffer a serious drop in importance in the United States. The American economy, of course, will continue to develop many new institutions during the next generation as it has done in the last one, particularly new institutions in the capital market. Nevertheless, it will fundamentally remain what it is today—an economy in which tens of millions of persons work out their own destinies with a good deal of help and guidance but, in the last analysis, in their own way.

EDITOR'S NOTE: Space limitations prevented coverage here of the author's comments upon 17 trends that will characterize the economy during the next generation, and his discussion of the behavior of the economy as a whole. Dr. Slichter's comments on specific economic trends will be presented in the next issue of the REVIEW.

—BY SUMNER H. SLICHTER. *American Economic Review*, May, 1950, p. 457:16.

How Long Will the Boom Last?

THERE IS GENERAL agreement among business appraisers that all signs point toward favorable business and employment prospects for the months ahead.

Yet, there is an old, well-established principle to the effect: A depression universally expected does not happen, and a boom collapses when everyone thinks it will continue indefinitely. In short, watchful cautiousness is always a matter of wisdom.

Another well-established principle is that: As go the automobile and construction industries, so goes the whole economy. These two industries are so large and ramify throughout so many sectors of the economy that when they are prosperous, it is almost inevitable that the economy as a whole will be prosperous. Yet, there may be individual companies even within these industries, as well as in other industries, which are not prosperous

and may even be experiencing decline.

In the first five months of 1950, the construction industry put in its best performance in history. This is always a danger. Private non-residential construction is outpacing the late 1949 forecast.

The government has boomed the boom by many actions, including mortgage insurance and guarantee, providing a secondary market for mortgages, public housing, and other public works.

This artificial market has not only arrested the decline in construction costs but has stimulated new price increases in lumber and other components.

If enough people should decide that costs are too high and are likely to go still higher in the short run, that could quickly reverse the current construction boom.

The automobile industry is in a strong position. Recently, the industry produced at the rate of 9,000,000 automobiles and trucks a year. With some 45,000,000 trucks and motor cars on the road, and with streets, bridges, and parking facilities taxed to inconvenient capacity, some people are beginning to wonder about future production.

Agricultural income, while down from a year ago, has declined less than was anticipated. In the 1940's, our population increased by 19,000,000 and is expected to go up another 12,000,000 in this decade.

Thus, in spite of current increases in agricultural output, the outlook for agricultural income is much stronger than it was after the first world war, and the need for prosperity-support-programs is becoming more dubious almost by the day.

The chemical industry, which spends more money on new products than most industries, is in a strong position and has a good outlook. The petroleum industry, thanks in part to John L. Lewis, is in a better position than was expected a year ago. Airline travel is growing.

Because of the recovery in business, and a somewhat slower rate of government spending than had been anticipated, the federal deficit will be somewhat below the $5.5 billion figure that had been projected only six weeks ago.

The strike situation for the rest of the year looks reasonably favorable.

Foreign recovery is helping to close the export-import gap, though exchange convertibility is making little progress, and continued foreign aid is likely to be demanded.

Keeping in mind that booms have a way of reversing themselves, it would appear from all other signs that the rest of 1950 ought to be prosperous and might even pave the way for a continuation of good times in 1951.

—By Emerson P. Schmidt. *Business Action,* June 9, 1950, p. 1:1.

The Quest for Economic Security: Whose Responsibility?

By MARION B. FOLSOM, Treasurer and Director
Eastman Kodak Co., Rochester, N. Y.

Economic security in recent years has been considered in its narrow sense of financial protection against major hazards, such as accidents, sickness, unemployment, premature death, and dependency in old age. The responsibility for providing this protection is divided among the individual, the employer, and the government. The question is the extent of the responsibility of each.

Regardless of who provides the protection, it cannot be emphasized too

From an address before the National Conference of Social Work, Atlantic City, N. J.

strongly that real security can be achieved only through production. Goods and services furnished to those who are unable to work because of disability, unemployment, or old age must be obtained from those who are producing. If we are to provide more goods and services to non-workers, those who are working must produce more. Otherwise everybody's standard of living would fall.

In its broadest sense, economic security for the individual means regular employment at good wages during productive years, as well as protection against the major hazards. While the individual's success is determined by his own efforts and capabilities, his security is dependent upon the condition of the economy of the whole country. Attainment of the goal of stable, productive employment at a high level depends upon action of all groups in the economy—business men, workers, farmers, consumers, and the government.

If we are to maintain our system of free economy and derive the benefits from it, the prime responsibility of providing security must continue to be the individual's. The employer can assist the individual in obtaining protection against the major hazards. The government's function is to see that there is a basic floor of protection to prevent dependency and yet not reduce the incentive of the individual to work and save. The methods which the government adopts will have far-reaching effects upon our economy. If the program should cause large numbers to feel that they can lean on the government for support rather than depend upon their own efforts, we will undermine the foundation of our progress.

How can these general principles be applied to specific Social Security programs, such as the Old Age Insurance, Unemployment Insurance, and Health Insurance?

We are now at a crucial point in the solution of the financial problems of the aged. Those of us who worked on the original Social Security Act of 1935 fully expected that by 1950 the contributory Old Age Insurance Plan would be the chief reliance for taking care of the aged. We saw the need for the Old Age Assistance Plan at the start but hoped that it would soon be relegated to a minor part. Unfortunately, this has not been the case. The insurance plan has not been extended to all those gainfully employed as originally contemplated. The benefits have not been kept in line with wages and cost of living. The cost of Old Age Assistance is increasing rapidly—from $430,000,000 in 1939 to $1,300,000,000 in 1949. The tendency of the system seems to be to destroy the incentive to save by promising that those who do not will be supported in their old age by the government.

The obvious solution, of course, is to extend and improve the Federal Old Age and Survivors Insurance Plan. This contributory insurance plan fits well into our economic system, with contributions and benefits depending upon the individual's earnings. If the original objective is maintained, i.e., to provide a basic layer of protection, it will not interfere with the incentive of the worker to save.

It is hoped that early action will be taken by the Senate so that the plan can be extended and benefits improved the first of next year. Those of us who served on the recent Advisory Council on Social Security appointed by the Senate Finance Committee believe the plan should be extended to practically all those gainfully employed, including those who are now covered under other governmental plans. Of course, these plans could be adjusted so that the worker would not lose any benefits.

The question arises as to what level of benefits the government insurance plan should provide. Employers, generally, are in favor of increasing the benefits substantially but feel that adequate benefits can be paid with the present wage base of $3,000. A monthly benefit of 50 per cent of the first $100 of monthly wages as provided in the House bill, plus 15 per cent of the next $150, would provide benefits somewhat higher than the House

bill. This would seem to be a fair compromise.

Under this proposed formula, a worker retiring soon who averages $250 a month would receive a monthly benefit of about $72.50 if single and $109 if he has a wife over 65. This would represent 43 per cent of the average wage for the married man. Such a formula would seem to be adequate.

The question will remain as to how to reduce the Old Age Assistance load. First, the proportion of Federal grants should be frozen at the present level and not increased as provided in the House bill. Secondly, the qualification rules should be liberalized so that the new groups brought into the Insurance System would soon become eligible. Thirdly, the Federal Government would specify that none of its grants for Old Age Assistance would be given "to persons who are receiving insurance benefits." If it were necessary, the states could, of course, supplement the benefit. This program would not prevent increases in cost of the assistance plan, but before many years the load would taper off.

As to the hazard of unemployment, in most states today the Unemployment Compensation Systems are functioning fairly well.

The payment of benefits of $1,100,000,000 in 1946 and $1,700,000,000 in 1949 were undoubtedly important factors in preventing greater decline in business in those two years. Without the system, payments would have been made only to unemployed workers who had qualified for relief. The good effect of these unemployment benefit payments was particularly noticeable in some smaller communities that were hard hit by cutbacks in local industries.

Under the original program, most states paid weekly benefits of 50 per cent of wages up to a maximum of $15. Along with the increase in wages during the years there has been a steady increase in the maximum weekly benefits payable. Now only two states have a maximum below $20; 65 per cent of the covered workers are in states which provide a maximum of $25 a week or more.

There has also been considerable progress in increasing the duration of benefits. Seventy-six per cent of the covered workers are now entitled to a maximum of 21 weeks or over and 48 per cent of the covered workers to a maximum of 26 weeks.

If progress continues as in recent years, it would not be too much to expect that before long most of the regularly employed workers would be protected with a maximum of at least $25 a week for 26 weeks' duration. It would not seem necessary to go much beyond this point to achieve the objectives of the system.

What protection is being provided today against illness and non-occupational disability? At the beginning of 1949, commercial insurance companies and non-profit plans covered 61 million persons against hospital expense, 34 million against surgical expense, and 13 million against medical expense. Also, 33 million workers or over half the labor force were covered under plans to provide against loss of income due to illness. Many of these plans are jointly financed by employers and workers.

There has been a rapid growth in these voluntary plans in recent years and progress will undoubtedly continue. The logical course at present would be to encourage the further growth of voluntary prepayment plans, rather than to resort to compulsory government insurance.

Five states now have compulsory systems for payment of temporary cash sickness benefits.

Under the New York State plan, which in my opinion is the best so far enacted, the payment of cash sickness benefits is made compulsory but an employer is given the option of operating his own plan if it measures up to the State requirements, to insure it with an insurance company, or to be covered under the State fund. The law will cause very little change in most of the existing plans.

The New York State law will involve the minimum of State administration as the bulk of employees will be covered by

individual company plans. It thus avoids building up a large bureaucracy which would be inherent in a monopolistic state or Federal plan. If other states follow the New York pattern, this protection could be provided on a sound basis without disrupting private plans or the business of insurance companies and with a minimum amount of administrative burden placed upon government.

"Operation Free Enterprise"

AT VANCOUVER, WASHINGTON, the operating heads of Aluminum Company of America's aluminum producing plant inaugurated what might be termed "Operation Free Enterprise" by employing for the summer 10 students from the Vancouver High School and giving them not only jobs but also a course in business economics which took from two to three hours of their time each week. Incidentally, this course is the same as that provided all new workers at the plant. It covers basic economics. Labor relations are explained by a former union officer. Operating, financial and technical facts are taught by trained company personnel. To qualify for this opportunity, each student must be among the top third of his class, must be 18 years old, and physically fit, and must indicate that he plans to complete his education in one of the following subjects: engineering, business administration, industrial arts, accounting or chemistry.

These lads may have jobs for as much as three additional summers. Each year it is planned to admit 10 new students to this work-education program. Henry DeYoung, principal of the Vancouver High School, in a comment after the first batch of students had returned to school in the fall, said: "These boys now know that every consideration within reason is given to teach an employee to do his job correctly and to provide working conditions that will keep him working. If this program continues, the Aluminum Company of America will have played a real part in furthering the American system."

—CHARLES C. CARR in *The Public Relations Journal* 5/50

A Sound Philosophy for Business Men

THOMAS DREIER tells, in his book, *We Human Chemicals,* of a friend in Honolulu who made an interesting discovery about living on an island. Mr. Dreier quotes his friend as follows:

"I had to make some changes in my thinking when I came out here," he reports. "On the mainland, when I didn't like a person, or found it hard to work with him, I merely broke off relations with him and went my way. Here it did not take me long to learn that there were only a few leaders, and we couldn't get away from each other.

"At first this discovery bothered me. But presently I found that a man who was in violent opposition to me on one project might, the next week, be a most helpful team mate in working for something else.

"In the end I found that, living on an island, one has to learn to work impersonally. Island people are obliged to get over the notion that each has to have his own way. They learn the art of give-and-take. They discover that a man who expresses his intense dislike of a plan isn't necessarily disliking the person who proposed it. They try to keep their eyes on objectives rather than personalities."

Working a business organization, large or small, is much like living on an island. We would be wise to adopt the discovery of this island dweller as part of our personal day-by-day working philosophy.

—*Management Briefs* (Rogers & Slade) No. 34

. . . But I Was Sick

PLENTY HAS BEEN written about the vital importance of answering correspondence immediately. No one will argue this fundamental truth, for there is only one thing that can be more annoying and time wasting than having to write a half dozen follow-ups to get a flicker of response to a simple inquiry. That one more annoying thing is the asinine, hackneyed and insincere excuses thrown at you when you do finally get an answer from one of these letter-putter-offers. Most of these excuses (and they invariably occupy a lengthy first paragraph and are re-hashed again in the close) are an insult to the average man's intelligence.

After taking a brief, but oh-so-enlightening, trip through our files, I found that the typical excuse letter invariably starts in one of four ways. Thus:

"Sorry to be so late in answering your 13 letters, but I've been away from the office for a couple of days and work has piled up on my desk." (This fellow, obviously, has a mail delivery every five minutes.) Or:

"Am sorry to say that the four letters mentioned in your letter of two weeks ago must have been lost in the mail." (Why sure, that's just what must have happened . . . the Post Office is run by a bunch of illiterates who can't read!) Or:

"I have been sick for the past year, and when I arrived back at the office I found your various letters." (You see, this character had the flu for a few days three years ago, and it has been his stand-by ever since. Besides, he is the only guy in the office who can write, so it's silly to turn his correspondence over to anyone else when he is absent.) Or:

"I'd have answered your letter sooner, only I accidentally touched it with a match as I was lighting my pipe and it has taken this long to read the ashes." (Actually I didn't find this one, but it's no more unbelievable than a lot of those I did come across!)

The above samples are perhaps a wee bit stretched, but the following true incident is decidedly one for the book.

I wrote a long, detailed letter to a sales executive of an important company. I was interested in buying his product for a little stunt I had in mind and I wanted price information, etc. I also added that I needed the info in a helluva hurry.

No answer.

I wrote two weeks later, again outlining my problem.

No answer.

Finally in exasperation I wrote a terse note: "I need an answer immediately to my letters of January 3rd and January 17th. Reply by air mail, special delivery."

A week later, regular first-class mail, I got this remarkable reply: "We are in receipt of your communication and wish to advise that your previous correspondence must have been lost in the mail." And then this big sales executive went on to give me all the information I had requested in my first and second letters!

Needless to add, I suddenly lost interest in the company. They'd probably try to kid me about their product, too.

Once, I got a letter that went: "I wish to apologize for this delay in answering your recent letter. It's all my fault." Period! I liked that letter. The fellow had loused me up, sure—but he wasn't stupid enough to jump from the dog house into the gas chamber!

—BY WAYNE FREITAG. *Printers' Ink,* May 26, 1950, p. 46:1.

FEW WAGE EARNERS are disturbed by big business as such, or by business monopolies, according to a survey by Macfadden Publications. In fact, more than 50 per cent of the workers polled feel monopolies in private enterprise are sometimes beneficial. As to the current A & P suit, two-and-a-half times as many wage earners who have heard about it favor the A & P as favor the government's side.

How Industry Sells Itself to Its Hometown

YOU CAN'T BEGIN TOO EARLY to put across the facts of U. S. industrial life. That's the theory behind a move that is flourishing in and around Youngstown, Penna. Top industrial leaders decided in 1947 that they wanted an organization of their own to tell the four counties in its area just how the free enterprise system works—in Youngstown. They set up the Industrial Information Institute, Inc., to tell the story.

For a starter, the 4-I organization has taken its case to the schools. Teachers worked to write a series of textbooks to be used from the third grade through the senior year of high school. Under Director Ralston B. Collins, groups of youngsters—and oldsters, too—visit the plants, see for themselves the kinds of jobs that are open to them right on home ground. Vocational guidance programs match the jobs with the skills of the youngsters who will want them.

The 4-I means to take its case to grownups, too. The organization will provide the ammunition; from then on, it's up to the member companies (there are 103 of them, paying dues on the number of employees) to spread the word.

Not long ago, the organization added a proud feather to its cap. General Omar Bradley presented it with a special medal from the Freedoms Foundation, Valley Forge, Penna., for the supplementary readers for schools.

—*Business Week* 4/29/50

Freedoms Foundation Awards for 1950 to Total $100,000

THE 1950 GENERAL AWARDS PROGRAM of Freedoms Foundation at Valley Forge will total $100,000 in cash awards plus honor medals and certificates of merit. In addition to the expanded general awards program, Freedoms Foundation has set aside for the current year a $50,000 fund for special awards to American school systems for programs in behalf of the American way of life.

Every citizen is eligible to participate, and entry blanks are available by mail from the Foundation Headquarters at Valley Forge, Penna. All judging of Freedoms Foundation awards is done by Awards Juries comprised of leading members of state judiciaries and other distinguished Americans from service, civic, and other patriotic organizations.

The various classifications of material to be considered for the awards include: company employee publications, public addresses, sermons, union publications, radio programs, 16mm. motion pictures, 35mm. motion pictures, photographs with captions, advertising campaigns, magazine articles, cartoon strips, single cartoons, and others.

Material submitted for the Freedoms Foundation General Awards must have been originated after September 1, 1949, and must be submitted on or before November 1, 1950. To allow ample time for judging of all material submitted, the award ceremonies and announcement of 1950 winners will take place on Washington's birthday, February 22, 1951. The School System program entries, however, will close July 31, 1950, and awards in that division will be made in the fall of this year.

LONGEVITY FIGURES recently published by the Federal Security Administration for 1948 show that the difference between life expectancies for men and women in the United States has increased from less than 3 years in 1900 to 5½ years in 1948. Average length of life for white women is now 71 years, white men: 65.5. The difference in average longevity between whites and non-whites has decreased from 15 years in 1900 to about 8 years in 1948.

—*For Your Information* (Edwin Shields Hewitt and Associates) 4/50

In Defense of Ivory Towers—And Their Tenants

EVERY VIBRANT, VITAL ORGANIZATION has at least one Ivory Tower tenant. Some seem to be blessed—and we do mean "blessed"—with a larger-than-usual quota.

Of course they get in our hair. Of course they disregard all rules and regulations. Of course they are "anti-organization." And of course they incline, at times, to be starry-eyed, and just plain loco.

But we believe with all our heart and soul that industry needs them every bit as much as it needs the group thinking of diversely-trained experts.

Yes, business would fall to low estate, indeed, if those who create and manage it were not taken up beyond Olympian heights periodically—were not prodded into mental fury—by unregulated, unfettered Ivory Tower thinkers.

We should encourage our Ivory Tower thinkers. For it isn't the habitat that counts—its the inhabitant. Many a great painting has come from a garret. Many a smear has come from a swank studio.

A well-built Ivory Tower is insulated from the bromidic, the formula-ized. Yet it's wide open to the stimulating winds of new concepts, new thoughts, imaginative thinking.

Great ideas have been created at "meetings." Of course a great many ideas often spring from group thinking. But *almost as often* great ideas are the brain children of a gifted mind that roams freely—and restlessly—through an Ivory Tower.

Our finest scientific laboratories boast hundreds of scientific workers—but only two or three have that disciplined creative detachment that comes from living in an Ivory Tower. A Pasteur, an Edison, a Kettering could keep thousands of scientists busy. Those three lived in Ivory Towers.

Management today is putting forth a noble effort to become more scientific about solving company problems—to get fresh ideas from the collective creative imagination of a conference. That's fine. But let's never forget that even the pure research workers in our greatest laboratories are not unaware of the importance of plain, ordinary "hunch." And what, pray tell, is a "hunch" but the end result of Ivory Tower thinking? Want proof? Read *The Way of an Investigator,* by the late Walter B. Cannon, M.D., George Higginson, Professor of Physiology, Emeritus, Harvard University Medical School. Chapter 5 is entitled "The Role of Hunches." Said Dr. Cannon: "From the years of my youth, the unearned assistance of sudden and unpredicted insight has been common. As a matter of routine, I have long trusted unconscious processes to serve me." Then, reporting the results of an inquiry concerning the role of hunches which brought answers from 232 high-standing chemists, he stated, "Assistance from a scientific revelation or hunch was reported by 33 per cent."

The inevitable result of too much organization is a process of leveling down the creative faculty. Too many conferences dilute inspired *thinking*. That is one of management's current ailments. It shows the result of a failure to achieve that nice, delicate balance between group thinking and Ivory Tower thinking. An excess of one or the other is as bad as a shortage of either one. But there is little danger of erring on the side of too many Ivory Tower thinkers. The damage is all on the side of overemphasis on organization.

—*Grey Matter* (Grey Advertising Agency, Inc.) 5/15/50

SIX OUT OF 10 AMERICAN ADULTS believe that union membership should be optional. Three-quarters of the people expressing this belief state that compulsory union membership interferes with personal liberties and freedoms. This was discovered in a recent Psychological Barometer survey, conducted by the Psychological Corporation, involving 2,500 personal interviews in 129 cities and towns from coast to coast. The reasons people gave for turning thumbs down on compulsory union membership were: It is "un-American", "Undemocratic", "This is a free country", "Too much like Socialism and Communism", "Ability, not membership, should count", and so on.

Some Economic Problems Arising from Expanded Pensions

THERE ARE SOME aspects of the current drive for expanded pensions that require far more study than they have thus far received. One area that requires further economic exploration is the impact of expanded pensions upon our future cost-wage-price structure. Another is the investment problem arising from the growth of private plans.*

Let us consider first the question of pensions and labor costs. The current drive for pensions must be viewed against the already swollen unit labor cost position in which this nation currently finds itself. Even after the price corrections of the past year, wholesale and retail prices alike remain in the stratosphere. Wholesale prices of manufactured goods (excluding farm products and foods) are 80 per cent higher than prewar, while all wholesale prices are double their prewar counterpart. The price correction of the recession produced no more than a 10 per cent correction in wholesale prices and left the general price level about as high as it has ever been in any past postwar inflation. Living costs (retail prices) currently are still 15-20 per cent above the zenith of the 1920 inflation. Thus we still are walking on price stilts at the very period when further substantial increases in labor costs, and inevitably in cost of production, are being made or demanded.

Expanded contributions by employers, whether to government or private pensions, enter directly into the cost of production. Employer contributions for all forms of social insurance, including old-age insurance, as well as employer contributions to private pension and welfare funds, are entered in our national income estimates as compensation of employees.

These indirect or supplementary forms of compensation have become an increasingly important item in the wage bill of industry. By 1948, such supplements were already equivalent to about 4 per cent of all direct wage and salary payments. Industry's total bill for indirect compensation was in excess of $5 billion last year as compared with about $2 billion in 1939 and $0.6 billion in 1929. It will show a further rise in 1950 under the joint influence of an increase of 0.5 per cent in employer contributions to social insurance (estimated total about $400 million) as well as expanded contributions by employers to private pension plans.

The larger share of indirect payments to labor has been accomplished by a corresponding offset in direct payments. The compound of direct and indirect payments is relatively unaltered. Employer contributions are, therefore, not to be regarded as a new mechanism, automatically assuring a higher return for labor. The change is more a matter of form and time of payment than of substance.

The target of the current drive for expanded private pension plans would appear to be to raise the employer contributions in the industries with below average ratios. Each additional 1 per cent expansion in employer contributions on the basis of prevailing payrolls would mean a rise of about $1 billion in labor costs; if contributions were raised in all industries with average or below average employer contributions currently, the total annual increase in labor costs would be about $4 billion to $5 billion.

As in the case of direct wage increases since the war's end, the recent drive for expanded pensions bears little relationship to the increase in productivity. In fact, the demands for expanded private pensions, as well as the recent wage targets for 1950 already announced by some of the labor groups, are two to three times in excess of what might be absorbed by expanded productivity.

Since consumers are no longer accepting goods or services at any price because of urgent shortages as in the early postwar years, further expansion of labor costs not offset by greater output per man-hour is likely to lead to greater unemployment

* Space limitations prevented inclusion of the third problem explored in this article, viz., our ability as a nation to fulfill our pension and welfare promises.

today rather than to the familiar upward spiral of prices as in the past. Thus at our present stage, in which we are striving toward a new balance between productive capacity and existing demand, these heightened labor costs would further cloud an already murky outlook for business. Insofar as employer contributions would not be reflected in higher current payments to employees, there would be little possibility of an offset to this decline through expanded expenditures for personal consumption.

The second major area which requires further consideration is the problem of investment and reserve policy arising from expanded pension plans.

Last year, only about $800 million was paid to life insurance companies for annuity premiums. The current target of raising average and below-average employer contributions to existing above-average payments, however, might produce about $4 billion to $5 billion of private pension funds seeking investment annually. Henry Steinhaus of the Equitable Life Assurance Society has estimated that it would cost about $5 billion per year to provide half our working force with a pension of $100 per month, supplementary to social security benefits under pending legislation. (This assumes retirement at age 65; interest rate, 2¼ per cent; average cost $160 per worker.) Shade either figure downward in the interest of conservatism, cut it in half, if you wish, and there would still arise an almost insatiable demand for riskless funds, if conservative investment programs of the past govern the allocation of these reserves. The ultimate size of such reserves has led some to suggest expansion of social security as a better alternative. But should private pension funds go exclusively or primarily into riskless investment? One might frankly inquire how "riskless" government bonds have proved to be for reserve purposes with their purchasing power today, in many instances, actually less than 10 years ago, even after inclusion of interest over a full decade. Is government sounder than the industry which forms its productive backbone? To carry the parallel another step, if private enterprise cannot prosper and expand for lack of venture capital or risk funds, is not the whole reserve approach more fictitious than real?

Perhaps an unanticipated salutary outcome of this pension drive, then, may be an enlarging market for private equities. Labor itself might be persuaded to join with management in allocating a substantial proportion of such funds for equity purchases. A set aside of even as little as 10 to 20 per cent of the annual increment would provide a much needed expansion in the flow of funds into risk securities. Such a program might also stimulate competition for reserve funds by sellers of fixed obligations, within as well as outside government confines.

—By Martin R. Gainsbrugh. *Pensions for Employees,* Chamber of Commerce of the State of New York, 65 Liberty St., New York 5, N. Y. April, 1950. 92 pages. $1.00.

A Problem in Public Relations

When a company official resigns his position to assume new duties elsewhere, the firm he is leaving is often faced with the problem of explaining the change to a number of his business contacts who were not notified, so that no misunderstandings will arise as to the reason for it. Libbey-Owens-Ford Glass Company, Toledo, has devised a plan that effectively solves this problem. To implement the plan, the company expects adequate advance notice of resignations. During the period following the notice to the date the official leaves the firm's employ, printed formal announcements are included in all correspondence with the executive's business contacts, indicating his length of service, announcing his voluntary resignation and the new position he is about to assume, and stating the date on which the change is to become effective.

—E. H. van Delden (Professor of Industrial Relations, Graduate School of Business Administration, New York University)

A Survey of Company Filing Practices

A DEFINITE TREND toward shorter retention periods for records—established after an examination of company needs — centralized files with low-cost storage for necessary but infrequently used records, and the use of specific controls for preventing the creation of unnecessary records was revealed in a recent Dartnell study of the filing procedures of 235 selected companies.

Progress of this type is being made under a number of different organizational setups; in some, the office manager is responsible, in others, the controller, in others, some staff officer as, for example, a records administrator or company archivist. In all the most successful cases, however, the records program is placed at a high enough level in the organization to permit it to function as an over-all program and to be able to get top management decisions and planning.

Does a records-management program pay off? To this question, now being asked by top management in many companies, answers like these can be given:

> F. M. Root, custodian of records for Westinghouse Electric Corporation, reports that his company saves $200,000 a year in filing costs with its program. The company has been able to destroy more than 120 carloads of useless records, and been able to move more than 300 carloads from the main offices to central archives where storage costs are much lower.
>
> A records inventory permitted the Continental Foundry & Machine Company, East Chicago, Ind., to cart away 35 truckloads for burning.
>
> The Sun Oil Company has been able to discard more than 1,000,000 pounds of records in the last three years.

Moreover, records management is not limited to destruction of obsolete records; it includes control over record-making and standardizing of forms. Standard Oil Company of New Jersey saves $500,000 a year with a program of this sort.

Such savings are by no means limited to large companies. Proportionate reductions have been made by companies ranging in size down to the very small.

The survey findings indicate no uniform solutions that will fit all offices regardless of size and function. But certain principles common to all form a pattern; parts of this pattern will be treated in the paragraphs below.

Companies anxious to organize their files generally begin by stating the objectives of the proposed program. Here is an outline of a typical program:

1. Establish retention periods for each kind of company record so that records are destroyed promptly when no longer needed, but never prematurely.

2. Divide retention periods into three stages—active, semi-active, and inactive—through one or more of which each record passes.

3. Provide some device so that departments from which records are transferred always are given the opportunity of final approval before records are destroyed.

4. Establish a simple procedure for withdrawing records from storage and returning them for refiling, and for following up and retrieving delinquent returns.

5. Organize a system that will "police" the movement of records through the files and insure observance of established retention periods.

6. Assure that a history (where stored, when, how, and by whom destroyed) of every record transferred to non-current storage is automatically provided as a by-product of the indexing procedure.

7. Establish "security files" by proper use of microfilm and other methods from which to replace lost, stolen, or misplaced documents such as engineering drawings and other vital records.

Who shall be given the responsibility

and authority for the records program? It was generally agreed by the surveyed companies that no records program can be successfully administered until this question is answered—and answered correctly. Few of the companies felt that records administration is a top management function; there is a conviction, however, that the nature of the problem is such that it requires some form of over-all control. It should, therefore, be not more than one step removed from top management which alone should make the policy decisions.

Many companies have solved the organizational problem by using the committee approach. This group is typically made up of men from all the important divisions of the company and is empowered to establish selective retention schedules for records and to direct the various phases of the work in classifying, filing, storage, microfilming, and destruction of records. Much of the routine work is usually handled by a methods analyst.

There was practically unanimous agreement among survey respondents that no general housecleaning should begin until a reasonably accurate survey has been made of existing records. This inventory consists of physically counting the contents of the filing cabinets and all other receptacles which contain records; the counts are recorded on a suitable form.

When the inventory is finished, the records problem will assume more manageable proportions. The National Records Management Council has compiled figures which indicate that about 35 per cent of the average company's records can be immediately destroyed after the physical inventory and the appraisal of its findings; 30 per cent can be transferred from the office to some less expensive storage area; 20 per cent must be retained in the office to meet current operation needs; only 10 per cent need to be retained indefinitely.

A records inventory brings additional advantages: It discloses duplications; it helps decide the centralization-decentralization problem; and it provides facts needed before the question of microfilming can be wisely answered.

The first major benefits of the reorganization of the filing department do not appear until the first batch of records—that 35 per cent—are tossed out. The same series of decisions which led to this step also resulted in policies affecting the company's remaining records—what shall be kept, for how long, and where. In other words, a retention schedule has been developed. The retention schedule should reflect the legal and operating needs of the company. Contributors are frequently warned against the indiscriminate adoption of another company's retention schedule, even a company in the same industry as yours. Here's a typical approach to the problem of establishing a retention schedule:

A. Consideration should be given to: (1) possible future value; (2) legal value; (3) possible interference with operations; (4) relations with the public or customers; (5) relations with the government and its agencies; (6) the problem and expense of replacement in case of loss; (7) availability elsewhere of identical copies; (8) the extent to which the same data summarizes or is summarized by other records; (9) the degree to which the record provides essential details.

B. The records retention systems should be simple and flexible.

C. The important elements affecting records preservation policies and the periods for records retention are: (1) the statutes of limitations; (2) the regulations of the government and its agencies; (3) recognized historical value; (4) sound business judgment.

Many firms found it necessary to have some coordination of the records administrator (still the files supervisor in some companies) and the forms design department; records administration must not be limited in scope and operation to records disposition. To be fully effective, it must have control over forms design and related activities. This control does two things: (1) It prevents making of unnecessary records and duplication of existing records. (2) By planning the eventual disposition of records *before* they come into existence, it assures that the new forms are designed with sound records-management principles in mind; it also guarantees that the process of dis-

position will be as automatic as possible.

Some of the other characteristics of the successful records programs surveyed were the attention given to the selection and training of files personnel, and the assignment of adequate space, light, and equipment to the filing department. Training for most of the surveyed companies consisted of a course based on a home-made filing manual and on-the-job instruction from the supervisor or one of the experienced indexers.

—From *Cutting Filing Costs* (Report No. 590), The Dartnell Corporation, 4660 Ravenswood Ave., Chicago 40, Ill. 1950. 54 pages. $7.50.

Pointers for Cutting Office Costs

THE RESEARCH COMMITTEE of the National Office Management Association made a comprehensive survey at the beginning of World War II to promote conservation and the elimination of waste in the office as a contribution to the war effort. Presented here are some excerpts from the report of that survey, involving practices that have permanent applicability.

The conservation and waste-elimination practices reported on have been used effectively by firms included in this survey. They have been grouped under logical headings and constitute a practical check list for use by individual companies.

A number of economies are possible in paper utilization.

1. *Stationery.*

a. Provide half-size stationery for short letters, memorandums, etc. By running the letterhead across the short dimension rather than the long dimension, about 50 per cent more writing surface is secured.

b. Eliminate extra file copies of correspondence, where practical.

c. Use small printed letterheads instead of multigraphing regular letterheads.

d. Appraise the need for all duplicated material, and discontinue any not fully justified.

e. Control closely the number of copies of duplicated material prepared. Eliminate over-runs. Run off in smaller quantities and more frequently to minimize waste.

f. Centralize responsibility for approval of all duplicating work with authority to prescribe quantity, size, and quality of paper to be used.

g. Reduce size of stationery. By reducing its letterheads from 8½ x 11 to 8 x 10 inches and buying mill runs of paper to accommodate the new size, one company saved 13 square inches of paper on each of 7,000,000 sheets.

h. Eliminate cover memorandums for transmittal of self-explanatory material. A notation directly on the material may serve in place of a separate routing tab or memorandum.

i. Use obsolete or spoiled paper and forms with a blank side for scratch paper, second sheets, rough drafts, etc. Employees can be trained to save much of the material that normally finds its way into the waste basket and use it for scratch-paper purposes. A folder on each desk is an effective way of assembling this.

j. Where practicable, adopt the procedure of endorsements on the original letter rather than writing a separate reply. This has special application to internal correspondence.

2. *Envelopes.*

a. Eliminate envelopes for internal and intercompany mail. Where master envelopes are used, enclosure envelopes should not be necessary. Confidential letters can be folded and stapled or fastened with a small label.

b. On intercompany mail, leave en-

velopes unsealed so they may be re-used.

c. Make maximum use of messenger or chain envelopes. Some companies use these for as many as 50 trips.

d. Consolidate in one envelope all mail for one destination.

3. *Forms.*

a. Carry out a form reduction and elimination program. Call for a justification of every copy of every form.

b. Standardize and simplify on the physical specifications to reduce waste in cutting and minimize varieties.

c. Establish centralized control of all printed forms.

d. Make use of combination runs in printing forms.

e. Use blank back of obsolete forms for miscellaneous purposes.

f. Eliminate cardboard backing wherever possible. Side banding may be substituted on many form printing orders.

g. Use mimeograph paper for all office forms.

4. *Filing material.*

a. Re-use file folders, index folders, and file guides. Reversing and relabeling often permits such re-use.

b. Salvage filing material released through the weeding of active files for re-use.

c. Survey inactive or dead file to locate material for more active use.

d. Use the backs of 3 x 5-inch index cards.

e. Limit file-folder prongs to thick or unwieldy files only.

f. Re-use storage binders formerly destroyed.

g. Question more strictly, as a means of reducing filing requirements, the necessity for filing material.

A number of economies can be achieved in the use of other office materials and supplies:

1. *Typewriter ribbons.*

a. Eliminate combination red and black ribbons. Experience shows red section often still good when ribbon is discarded. Infrequent need for red characters is met in some cases by inserting a piece of red carbon or red ribbon behind the black ribbon. One company using combination ribbons uses the red section for all internal correspondence as a means of equalizing the use.

b. Turn one-color ribbons at intervals to ensure full use.

c. Wind ribbon completely on one spool before leaving at night.

2. *Pencils.*

a. Replace wooden pencils with mechanical pencils to secure longer service.

b. Use pencil lengtheners for wooden pencil stubs.

c. Keep pencil sharpeners repaired. Dull and inefficient sharpeners chew up a lot of pencils.

3. *Clips, pins, staples, rubber bands, etc.*

a. Remove and re-use all clips, pins, rubber bands, and other fasteners from material before filing, and from all material weeded from files.

b. Replace clips and pins with staples. Staples use far less metal.

Following are some economies in the use of office machines, furniture and equipment:

1. Take an accurate inventory of all machines and equipment to establish location and extent of use.

2. Set up a central pool from which departments borrow to meet peak demands and part-time requirements. This practice is followed quite frequently with typewriters.

3. Standardize and simplify varieties of office machines, furniture, and equipment to provide greater flexibility and facilitate maintenance.

4. Revise systems and procedures to eliminate the need for special equipment. One company reported a saving of approximately $10,000 in annual machine rental through a change in its order entry and billing procedure. Another company reported an annual saving of $5,000 in equipment and forms and $3,000 in labor through a change of its sales-analysis procedure from a machine to a manual operation.

5. Adopt a policy of more intensive care and maintenance of existing equipment. A number of companies formerly

employing self-service or service on call have changed over to service contracts, sometimes at additional net cost. This is considered justified to permit longer use and reduce service interruptions.

6. Instruct all employees in the proper care and use of furniture, machines, and equipment.

7. Inventory all partly used file cabinets and partly filled drawers as a basis for reassignment and reallocation of equipment.

Following are some suggested labor economies:

1. Schedule work and consolidate functions to eliminate idle time.

2. Eliminate unnecessary motions in routine operations through time studies.

3. Develop flow-of-work and process charts by a planning department to eliminate backtracking and superfluous operations.

4. Develop a flexible staff that can be shifted to meet peak loads.

5. Provide additional time clocks to avoid congestion and delay in both entering and leaving the office.

6. Provide safe and healthful working conditions to minimize lost time due to sickness and accidents.

7. Require justification and prior approval for all overtime.

There is no secret about saving money. It is largely a matter of habit, just as continued good work is a matter of habit. Over two hundred years ago an American named Benjamin Franklin told the world how to get rich. The fundamental philosophy of Poor Richard can be stated in four words: Waste not, want not. Though it is difficult to measure the savings effected through such measures as the foregoing, one definite result of such efforts reported by many executives is an increasing cost-consciousness on the part of company personnel. And this is a certain first step toward greater economy.

—From *Textbook of Office Management.* By WILLIAM H. LEFFINGWELL and EDWIN M. ROBINSON. McGraw-Hill Book Company, Inc., New York, 1950. Third edition (revised). 652 pages. $5.00.

1950 BLS Salary Surveys Announced

TYPICAL SALARIES and hours of work for office clerical workers in a number of large cities throughout the United States will be presented in a forthcoming series of reports, according to the U. S. Department of Labor's Bureau of Labor Statistics.

The reports, based on field surveys, will contain for selected clerical occupations detailed information on average and median salaries, rate ranges and frequency distribution by salary rates and by major industry groups. Supplementary information will also be given on hours of work, vacations, insurance, sick leave, non-production bonuses and paid holidays.

Cities for which 1950 office worker salary data will be available include:

Atlanta	Detroit	New York City
Boston*	Indianapolis	Oklahoma City
Buffalo	Los Angeles	Providence
Chicago	Memphis	San Francisco*
Denver*	Milwaukee	

Office worker data will be available for Philadelphia* about the end of August and will be announced at that time.

Free copies of preliminary reports for any or all of these cities may be obtained from the Bureau's New York Regional Office, 341 Ninth Ave., New York, N. Y.

Individual detailed city reports will be published in printed bulletins and will be for sale by the Superintendent of Documents at a cost of 15 cents each.

* Final data for these cities will be available in printed form along with wage data for other types of workers in the community. These broader reports will be on sale by the Superintendent of Documents, U. S. Government Printing Office, Washington 25, D. C.

Handling Lateness and Absenteeism of Salaried Employees

TO GET A CURRENT PICTURE of the practices of representative companies in the New York area in handling the problem of lateness and absenteeism of salaried employees, the New York Personnel Management Association recently surveyed its membership on the subject. Presented below are the principal findings of the survey.

Replies to the survey were received from 141, or 47 per cent, of the companies in the Association, representing approximately 250,000 salaried employees in the metropolitan New York area.

Attendance records are maintained by 97 per cent of the respondents; most companies maintain them for each employee and summarize them by departments. Detailed responses were given by 56 firms as to why analysis of reasons for absence was helpful. Typical comments were:

Revealed "marginal" workers.
Indicated where supervision was lax.
Permitted corrective measures for unjustified absences.
Uncovered unhealthful working conditions.
Enabled medical department to function more effectively.
Reduced number of one-day absences.
Showed effect of poorly ventilated and crowded conditions and excessive overtime on absentee record.
Revealed physically unfit.
Highlighted effects of good administration.

Approximately 80 per cent of the survey respondents require some or all of their employees to report their starting time.

Most companies have specific controls for handling unexcused lateness, usually interviews to determine reasons, and reprimand and discharge if habitual. Except when lateness is excessive, few companies employ punitive measures such as docking pay, temporary layoff, demotion, or requiring employees to make up time.

None of the respondents immediately discontinue salary payments when employees become ill. Sixty-four firms continue salary for specific periods of time as established by formula, and an additional 23 indicated similar arrangements based on length of service. Forty-four companies continue salary for indefinite periods of time based on the merits of the case. Length of service, previous record of attendance and punctuality, nature of illness, employee's position and performance rating, and estimated duration of the illness are important determinants.

Pre-employment medical examinations are required by 92 firms. Fifty-two companies investigate absences, and 69 require medical clearance after illness; 55 offer free preventive medication.

Time off with pay for death in the immediate family is granted by 94 per cent of the respondents. Three days is usually granted in such instances.

Time off *with pay* for weddings, births, or illness in the immediate family is granted by approximately half the companies, and 42 of these companies have reduced the amount of time off to a formula. Employee's previous attendance record and frequency of requests for time off are important factors, as are length of service and performance rating.

Granting of leaves of absence for personal reasons *without pay* seems widespread, 127 companies indicating such leaves without pay for reasons other than employee's illness or for military reasons. Ninety firms grant such leaves of absence *without pay* for marriage; and 72 extended leaves of absence for maternity; 95 listed other miscellaneous reasons for granting leaves of absence without pay, e.g., continuation of education, travel to foreign countries.

Eighty-five per cent of the companies indicated employees receive full pay plus jurors' fees when on jury duty.

WHEN you're considering the amount of money it takes to hold a top executive, there's no such thing as a wage pattern. Compensation of the chief officers of the biggest U. S. industrial corporations runs anywhere from about $70,000 to close to half a million, according to a *Business Week* study of management compensation in 1949.

Personnel Management

Realistic Approach to Supervisory Communications Needed

THE OTHER DAY I received a letter from a supervisor who mentioned some basic concepts in the philosophies of Karl Marx and Adam Smith. He used—correctly and without affectation—such words as "castigated" and "confiscatory." There was no striving to make this an erudite epistle. He discussed a real down-to-earth foreman problem, and tried to find the answer to current worker attitudes. His letter climaxed a series of observations I have been making that the educational level of supervisors today is much higher than in the past.

How much education does the average supervisor today have? There can be no definitive answers unless you use personal interviews. If you go into your plant to find out, you probably couldn't get the complete facts. Employment records, unless very carefully kept, are not completely realistic. In many cases they do not show supplementary education. None of them indicate what the reading level of supervisors is as a result of informal education. Analysis of our plant records shows that 65 per cent of our supervisors have some high school education. Of this number, 41 per cent have completed at least the third year of high school and 11 per cent have had some college or technical school work.

At a power plant in the South, we find that out of a total of 229 supervisors, 48 men and two women have college degrees, and 169 at least three years' high school.

In a Meadville, Pa., plant, 50 per cent of the supervisors are high school graduates. Of this number, 25 per cent attended college. One supervisor out of every three is taking an extension course. The fact that Meadville is the home of Allegheny College may account for this high percentage taking college courses.

Some years ago Opinion Research Corporation found that 22 per cent of foremen had grammar school only; 56 per cent had high school and trade school training and 22 per cent had college, either completed or in part.

Probing this educational background naturally leads to the next question, "What is the scope of the supervisor's reading interest?"

Incontrovertible evidence from a number of polls reveals that supervisors today are keenly interested in current events, our national problems, economics, dangers of socialism, and foreign affairs. Spot news over the radio or in newspapers whets their appetite. But they want to understand how day-to-day events shape up to affect the future—their companies—their own jobs.

Supervisors have an insatiable hunger to be informed about their own company's problems. Too often, though, management brushes them off with indefinite information. They want specific answers to such questions as: Who are our competitors? What is the effect of foreign competition? How much inventory have we on hand? What percentage of the total cost does labor represent?

They need help in supervisory techniques. Right now the emphasis is on discipline and quality. They want to raise their sights to understand such industrial engineering principles as time study, job evaluation, work simplification, statistical quality control, departmental layouts, handling paperwork.

To balance the diet, human relations has a stimulating appeal to supervisors. But the foreman today wants his human relations served with a psychological sauce. He doesn't want to know how people act—he has evidence of that on the job every day. He doesn't want to be told what to do—he's probably done it

scores of times already. What he wants is to learn *why* people act the way they do. Then he'll go ahead and figure out how to handle them effectively.

We can tell a foreman that he's part of management from now until doomsday. But it will be to no avail today unless our communications to supervisors are slanted to build prestige. The subtle assumption that the supervisor understands management problems and management language is a far more effective weapon than clouting him with a club.

—By Glenn Gardiner. *Executive Letter* (Elliott Service Co.), April, 1950, p. 1:2.

When Do We Eat?

A WORKMAN produces a lot at the start of each shift, then tapers off a little before lunch. With a meal under his belt, he's more productive but starts tapering off again at mid-afternoon.

Industry has long recognized this as a normal fatigue pattern that couldn't be remedied. Now, though, a new and somewhat startling proposal to meet the problem is making the rounds in industry: Cut out leisurely, hour-long lunch periods, and give the lost time back to employees in mid-morning and mid-afternoon "lunch-snack" periods.

The suggestion stems from recent experiments conducted at Yale. These indicated that the human organism doesn't work at its best under the traditional three-meals-a-day system. It does better if it gets about the same amount of food in four meals. Translated into plant terms, the Yale physiologists feel employees lose a minimum of work efficiency under a lunch-and-snack plan. It gives workers a "lift" just when they're beginning to tire. Result: steadier productivity without proportionately higher effort.

A lot of employers have been wondering can they cut out the lunch hour and give 30-minute morning and afternoon lunch-snack periods instead. Some intend to talk to their unions about this when contracts open up again. Others are weighing another question: Would shutting down machines and starting them again twice each shift offset the lunch-and-snack gain in efficiency?

Meanwhile, management is watching a recent lunch hour change at Marshall Field & Co., Chicago, aimed at more efficient staffing of sales counters—not higher productivity.

In many department stores and specialty shops, sales of accessories, hosiery, and such merchandise reach peak during lunch hours. Thus while regular clerks are at lunch, these departments have to be manned full-strength with short-hour or part-time salespeople. But that means a higher sales-labor cost for the company and often less money for regular salespeople, since clerks in specialty departments are usually paid on a salary-plus-commission basis.

To solve the problem, Field suggested that salespeople in the noon-rush departments combine their one-hour lunch period and 15-minute morning and afternoon rest periods—take half the combined time (45 minutes) some time before noon, the other half in mid-afternoon. The plan is voluntary, but practically all the clerks in the noon-rush departments have shifted to the new time plan—and like it.

Marshall Field believes its plan has resulted in better service for customers and more efficient departmental operations in rush hours. Employees like it too. They can eat quickly during the morning break, without running into the noon rush at eating places; in the afternoon, there's time enough for a soda, rest, shopping, and personal business.

—*Business Week* 2/11/50

EVERY TIME you turn down a job applicant, you risk injuring your firm's public relations. This problem is handled at American Greeting Publishers, Cleveland, which averages about 34 rejectees out of every 35 jobseekers, by giving every rejected applicant an attractive box of greeting cards.

—*Factory Management and Maintenance* 12/49

Points to Remember in Making a Wage Survey

By KEITH DAVIS, Associate Professor of Industrial Relations
The University of Texas

A WAGE SURVEY requires considerable planning, organizing, and analysis. It presents many pitfalls and problems. As with most personnel techniques, minor oversights can snowball into serious troubles. The following list of "oversight" details is intended to help the survey administrator keep on the right track. The check list is not a procedure; it should be used along with a general plan of procedure.*

Planning the Survey

The following questions should be considered in planning a wage survey:

1. Do I know what I will do with the survey information; that is, what are my objectives? Objectives must be outlined before accurate policies and plans can be made.

2. Am I requesting all the information needed so that I will not have to make a second request or end up with incomplete information?

3. Am I requesting excess or useless information? This will waste my time and the survey participants' time. Am I requesting unreasonable, embarrassing, or confidential competitive information? This will lose business friends.

4. Have I devised a code and procedure to keep firm names and salary data confidential?

   a. Do cooperating firms know that the data will be confidentially handled at all times?

   b. Is the survey staff impressed with the importance of maintaining confidence? One slip-up can ruin a survey or prevent a future survey.

5. Will I gather data only on the basis of job descriptions? Job titles vary from firm to firm and are likely to be misleading if used alone.

6. Have I adequately described each job? A good job description is the key to a satisfactory wage survey. There is some advantage to the uniformity gained by having each key job conform to the title and description in the United States Department of Labor *Dictionary of Occupational Titles,* if the dictionary description really fits the job in question.

7. Have I selected an excess of key jobs so that I will still have a representative group even though some jobs are dropped during the course of the survey? Some jobs may not occur frequently enough to be tabulated; others may have unusual conditions causing them to be unrepresentative.

8. Do key jobs represent the entire range of skills and functional groups, from janitor to toolmaker, from office to shop, and from union organized to unorganized?

9. Do the key jobs lend themselves to clear, concise descriptions so that they may aid comparison and understanding? Since the job description is the backbone of the survey, a complicated description may lead to an improper comparison.

10. Are the key jobs the older and more stabilized jobs in the community, because such jobs are usually the bench marks of the wage structure in the community or industry?

11. Have I excluded any key jobs with unusual but temporary wage influences, such as an extreme shortage of workers? Such jobs are not representative of the total community wage structure.

12. Are the selected, cooperating firms representative of my firm's wage competition?

   a. *Area.* Most jobs will be competitive on a local basis, but some rare and specialized jobs will have area-wide or nation-wide competition. Perhaps a separate sub-survey will have to be made on a wider basis in order to include the labor market for the specialized jobs.

* For example, see Belcher and Heneman, *How to Make a Wage Survey,* University of Minnesota, Minneapolis, 1948.

b. *Nature of employer.* I should survey my *wage and employment* competition, rather than my product competition. For example, a retail store cannot survey merely other retailers; it must also survey wholesalers, offices, and others with whom it competes for labor.

13. Am I including enough companies and key jobs? The "25-25 formula" (25 key jobs in 25 companies) is a useful general rule for a single medium-sized company to follow.

14. Am I seeking adequate information on base wage additions, such as overtime and holiday pay, and on non-wage factors, such as services, welfare plans, and fringe issues? These items add considerably to wage cost. Only significant items should be surveyed, however, because too much detail leads to confusion.

15. Will I use the interview method? It takes more time than a questionnaire, but the interview is likely to gather more accurate and useful information.

16. How often shall I make the survey? Some firms make surveys every month or at least twice a year during periods of unsettled wages. A survey once or twice a year is sufficient for normal conditions.

17. Am I coordinating the wage survey with annual collective bargaining negotiations, if any, so that the survey will be completed and carefully analyzed (but not out of date) in time for the bargaining sessions with the union?

18. Have I considered the employee relations aspects of my wage survey? For example, will employees have more confidence in my wage plan if they know that I am in close touch with the wages and personnel policies of my competitors?

19. Have I sold members of top management on the functions and values of the wage survey? I should proceed no further if I have not sold them. This is a trite question to ask, but experience shows that it is often answered, "No."

Gathering the Data

In gathering the wage data, the following questions need to be considered:

1. Has a top executive made the initial contact with participating firms in order to encourage cooperation?

2. Have I made a definite appointment and estimated the time I will need so that the cooperating firm will be prepared?

3. Have I forwarded preliminary instructions in advance and given the cooperating firm time to prepare the data?

a. If using a questionnaire, have I mailed it ahead of time so that the recipient has at least a week to prepare his answer?

b. If interviewing, have I previously mailed the employer a list of key jobs with instructions so that he will be prepared for the interview?

4. If a questionnaire is used, have I supplied two copies of each form so that the reporting firm may keep a copy? Many survey administrators thoughtlessly overlook this point.

5. Have I promised cooperating employers a copy of the survey in appreciation of their cooperation?

6. Are my interviewers instructed to act courteously and appreciatively? The survey is a matter of mutual cooperation, not a formal business transaction or a negotiation process.

7. Does the cooperating employer know what I want? Are my instructions and interviews clear, concise, and complete?

8. Will I insist upon actual rates paid, rather than estimated rates or rate ranges? Inaccurate information should be disregarded. For example, an employer may estimate that he has 30 machinists averaging "about" $1.25 an hour; but upon investigation the actual rates may average $1.30, with a median of $1.33.

9. Am I including in wages "payments in kind," such as meals and living quarters? A standard conversion rate may need to be established, since many firms will not be able to estimate the value of "payments in kind."

10. Am I including in the interview report only that information which clearly fits the standards and definitions?

11. In the case of incentive, commission, or bonus workers, am I securing wage data for a period of one to three months in order to level out weekly or monthly variations in income?

Analyzing and Using the Data

Questions such as the following should

be considered in analyzing the wage data:

1. Have I reviewed the data for inconsistencies?

2. Have I considered disregarding unusual extremes or incomplete data?

3. Have I reduced all wage data to the same common denominator—hour, standard week, standard month, or standard year? A standard period of an established number of hours is essential to uniformity. For example, two clerks may equally earn $60 weekly, but one may be required to work 44 hours for his $60, while the other works 40 hours.

4. Have I excluded irregular overtime, irregular bonuses, and shift premiums from the base wage?

5. Am I aware of the practical limitations of my statistical techniques? For example, a "weighted average" analysis may reveal that wages have increased since the last survey, *even though* no employer has granted a base wage increase. This would result from within-grade rate increases since the last survey. If I used a "weighted average" analysis as the sole reason for modifying my base rates, I might be raising them unnecessarily high.

6. Am I presenting the analysis in the simplest form possible consistent with the objectives of the survey? Am I using simple comparative charts, graphs, and tables, rather than voluminous and detailed tabulations? Could I explain the results to an employee, as well as to a statistician?

7. Do I know how to chart the community rate structure so that it may be usefully compared with my firm's rate structure?

8. Am I using community rates as a *guide to judgment,* rather than as the sole basis of action?

  a. A survey indicates only what my competitors are doing, not what I *should* do. It cannot dictate what is effective salary administration for my firm.
  b. Community rates do not express the entire wage situation. Such items as nearness to transportation are difficult to express in wage terms. Such items as harmonious supervisory relations are difficult to measure, though they are a competitive factor.

9. In making any judgment regarding the data, am I giving due weight to employee services and indirect wage factors, such as rest periods, holidays, and welfare plans? Often the employee per-hour costs of these plans may be estimated as a further *guide* to judgment; however, even costs may be misleading when they are subject to variation from such factors as age of employees, length of service, and length of time covered by the particular benefit. Further, when problems of employment competition are being considered, value of the benefit to the *employee* is the controlling factor, not cost to the employer. Benefits which are comparatively unpopular will not hold employees, even though these benefits cost more than those of one's competitor.

10. Am I analyzing the data in all useful ways? For example, in a city is there a distinct difference between downtown and suburban rates or between one side of the city and the other? In which rate group should I consider my firm?

11. Am I toning down the tendency to regard all figures as objective facts?

If I can answer these many questions satisfactorily, chances are that I will have an effective wage survey.

COMPANIES WITH 50 TO 500 EMPLOYEES tend to have the highest accident rates. That's reflected by investigations growing out of the President's Conference on Industrial Safety. Here's why: In the very small plant the owner is in close contact with operations, knows the serious effects even one accident can have on his business, and gives hazards prompt attention. Larger plants (more than 500 workers) can support a full-time safety engineer, join safety organizations, utilize the safety facilities of their insurance carriers. In the "inbetweeners," the top man loses contact with line operations, can't afford a safety specialist, delegates safety responsibility to unequipped and busy foremen.

—*Labor Checklist* (Research Institute of America, Inc.) 5/31/50

Needed: Emotionally Mature Workers

By DONALD A. LAIRD

SPECIALISTS BELIEVE that approximately half the adult population in the United States lacks mature emotional status as a result of too much mothering, or fathering, or inlawing.

The business man needs employees who are weaned emotionally from their parents. The unweaned worker tends to lack ambition and a sense of responsibility and to behave at times in a way that reveals some childish emotional traits that interfere with morale. When a parent applies for a position for a son or daughter, the young person involved probably suffers from "too much parent" and is not being allowed to stand on his own feet.

The business man also needs to guard against any tendencies on his own part to keep his children too dependent upon him. If he is used to running everything at the office, he may attempt to run his family the same way. He may provide well for his sons and daughters in a material way, but at the same time deprive them of a chance to practice their own independence and self-reliance. If he does deprive them of the chance to mature emotionally, to wean themselves from him, they will grow up (a) lacking self-confidence, or (b) resenting the way the old ramrod has dominated their lives. And when they are old enough to enter business, though they may have the brain power to run the business, they will lack interest or push, or both, and will be unable to carry on the family fortunes.

Getting out from under the parental wing, cutting the apron strings, is essential for mature development. Going to school or to work in another city is often a good way for a young person to start on the road to maturity.

Dr. Arthur W. Sherman, Jr., of Ohio State University, has made experimental studies of emotional emancipation among young people who are away from home at school, and has constructed an inventory to determine the degree to which the individual stands on his own feet. Here are some of the statements from his copyrighted inventory to determine the extent of young women's emancipation, together with the answers Dr. Sherman believes indicate the respondent has been weaned:

1. I think more of what my friends say than of what my parents say..... Yes
2. When I am feeling blue, I usually look to my parents for comfort..... No
3. Even though I could afford to live elsewhere after graduation, I would prefer to live at home..... No
4. I purchase my own clothes without assistance from my parents..... Yes
5. I take my parents' wishes into consideration when selecting friends..... No
6. I decide what course I shall pursue without assistance from my parents..... Yes
7. I plan to enter the occupation my parents think best suited for me..... No
8. When the time comes for me to marry, I shall select my mate without any help from my parents..... Yes
9. If a position of equal rank and opportunity were offered me, I would prefer to work for my father than accept the position with a strange company..... No
10. I ask assistance from my parents in how to use my spending money..... No

Some of the statements in the foregoing list may suggest to the employment interviewer points that might be covered in conversation with applicants for work that requires mature independence.

Dr. Sherman has found that women who have emancipated themselves tend to have better emotional balance than those who are not so completely weaned, are more self-sufficient, better able to dominate others in face-to-face situations—such as sales work, or as receptionist or supervisor — and have more self-confidence.

It is interesting to note that the women who were not so completely weaned were found to be the more sociable. It is possible that this sociability may reflect their dependence upon others rather than any

This article is an excerpt from the author's forthcoming book, *Practical Business Psychology*, to be issued this fall by McGraw-Hill Book Company, Inc., New York.

real interest in other people—that, in other words, the emancipated woman is content to be alone, while the one who is less emancipated craves the security of others' company. This would seem to indicate that the unemancipated girl would not be suitable for a one-worker office, unless there were time for her to visit with friends and relatives over the telephone.

Homesickness

When Louis Pasteur went away to school, at the age of 15, he was overcome with the despair of homesickness. It was the first time he had been away from home and the familiar smell of his father's tannery. The thin boy became so preoccupied with his misery in the strange surroundings that his father had to come and take him home.

"Nostalgia," the technical term for homesickness, is derived from two Greek words meaning "pain" and "a return home." Homesickness can be painful, not just for a 15-year-old boy away from the pungent tannery for the first time, but for grown people who have not matured emotionally. Adults can feel as insecure and bewildered as children in a strange city or new company, and can become downright sick from homesickness. There are many capable men who have had to give up good positions as branch managers because of nostalgia for the home town.

Colleges try to prevent homesickness among beginning students by having them come a week early, when the campus is not as crowded and confusing. Activities are planned so the newcomers will be kept busy almost every minute, have fun, and get acquainted with others. Yet, there are always one or two from every hundred who become so homesick they have to give up going to school away from home.

New employees, especially those from out of town, are apt to have a similar period of homesickness which slows their learning the job and harms morale. The razzing and practical jokes old-timers like to play on beginners merely add to their sense of insecurity.

Such a situation will be improved if the new worker is made well acquainted during his first couple of hours on the job with the small part of the plant where he will work. If the plant is large, a hurried tour through all of it will only make him feel more confused and insecure.

A sponsor or "official best friend" also can prevent a feeling of loneliness. A more mature worker—not necessarily older, but emotionally mature and poised—is a real help in starting a new man right. If interviews with the new employee indicated he has been dependent upon a parent, the sponsor might be a fatherly employee; but if the interviews have revealed hostility toward the parent, as about one out of three do, the sponsor should be an employee who is the new man's own age. In the case of a new woman employee, when interviews have indicated she is the one out of three with hostility toward her mother, her sponsor — and her permanent boss — should be a man.

The individual who plans to go to another city to work should prepare himself for breaking home ties and adjusting to new surroundings. A few weeks before leaving, he might take a few overnight trips to new places—but without telephoning home on arrival to announce he is still alive, for his parents might have to be weaned too. He should practice being friendly and getting acquainted with new people—mature people; practice a little more independence and self-decision. He should begin to look forward to the new location, and learn as much as possible about it from the library and Chamber of Commerce. It might be a good idea to subscribe to the daily newspaper of the new location for a month or so before going there and to write the company in which he is interested for copies of the employees' newspaper or magazine.

Becoming of Age Emotionally

As we grow up, we constantly have to replace personality habits and emotional attitudes with new ones. Outlook and attitudes have to be adapted to our age and place in life, otherwise we will not progress.

Clowning is appropriate in a four-year-old who wants to gain attention, but not for a 24-year-old. Loyalty to a small gang of boys is appropriate for the 13-year-old boy, but not for the 33-year-old who should be loyal to a larger and mixed group. We expect the teen-ager to giggle at everything, be late, and follow fads, but not the mature person.

As people's bodies grow out of childhood, their emotions, attitudes, and outlook should also grow. The body will grow and develop naturally. The development of people's emotions, however, requires some conscious effort, if they are to achieve maturity.

The average person can help his emotional development to a mature, well-adjusted level, by imitating good models. Pick a hero who is about five years older, some person who is regarded highly by everyone, who has a little better job than you have, perhaps someone who has qualities you envy. Make that person a model to imitate—don't envy those qualities, cultivate them for yourself. Stick to the old friends, but lift yourself, and them, by raising your sights.

Some young people make the mistake of trying to imitate a successful person three times their age. That is too wide a gap to cover, or to be desirable if it could be covered. After all, it is not appropriate for the 20-year-old to take on the personality of a 60-year-old deacon and grandfather. But it is appropriate for him to have the habits and outlook of a 25-year-old married man who is going places in the world.

Personality adjustment to frustrations, and to advances in maturity status, is continuous. It must be ever on-going. As one grows from the world of children into the world of adults, one's emotions should also become adult. Frustrations and thwartings of life should make one look forward to the next level, not backward to the bygone years of childish dependence and bodily comfort-seeking. The sixtyish woman is fooling no one, not even herself, when she dresses sweet-sixteen and acts kittenish. She has put her emotional development in reverse gear. It is as dangerous to run emotions backwards as it is to drive an automobile backwards.

"Rules of Conduct" Keep Strike Losses Low

TODAY, when the modern labor leader sets out to "do battle" with management through a strike, he usually sticks pretty close to the Marquis of Queensberry rules, at least to the extent of promising "not to interfere" with plant maintenance.

But some unions are ready to give more than this negative assurance. Employers who face the ever-present possibility of strikes may be interested in these examples of companies which have gotten better-than-average guarantees:

At Dodge Manufacturing Company, the union agrees that if maintenance workers fail to show up during a stoppage, substitutes will be provided from among the strikers. An interesting variation at Phosphates Products Company provides for the rotation of maintenance jobs among strikers, giving all a chance to earn a little money.

Most elaborate plans for protecting company assets are naturally found in hazardous industries, or in trades where material is subject to unusual spoilage.

At Hercules Powder Company, management gets a five-day period of grace after a strike call. Employees remain at work to take all necessary safety precautions.

Procedure at Surpass Leather Company is standard for most organized shops in the tanning industry. In case of strike, employees stay on the jobs until hides are worked into an "unperishable" state.

An object lesson in how a union and an employer may remain "friendly enemies" during a stoppage occurred at the Lionel Corporation. Strikers helped build sample toy trains in time for Christmas orders, though no regular production work was done.

—*Executive's Labor Letter* (National Formen's Institute, Inc.) 5/25/50

Vacations—Mass vs. Staggered

WHICH WOULD BE BETTER for your plant—mass or staggered vacations? It's probably too late to change your plans for this year, but now is a good time to get set for next season—when the problem is fresh in everyone's mind. The check list below will help you weigh the pro's and con's.

Some advantages presented by mass vacations are:

________*Using the slack season* to close the plant for paid vacation period can help avoid the unpleasantness of seasonal layoffs.

________*Capacity operation* is easier for 50 weeks of the year. Efficiency isn't cut by vacation absences.

________*Extensive repairs,* equipment installation, and inventory-taking can be done during the vacation without slowing output or causing layoffs.

________*Work can be scheduled* without allowing for employees on vacation.

________*All workers are treated the same.* This simplifies the foreman's job of scheduling vacations, and the accounting department's job of issuing vacation pay. It also stops complaints of unfairness.

Some advantages of staggered vacations are:

________*Continuous deliveries* to regular customers, and all normal services, are possible the year round. Interruption might play into competitors' hands.

________*New orders can be accepted* at all times and completed on schedule.

________*Rapid processing of perishable goods* on hand is assured.

________*Employees have a wider choice* of vacation time.

________*Good community relations* are preserved. The load on recreational and travel facilities is spread more evenly.

Among the disadvantages of mass vacations:

________*The expense of closing* the plant down and of reopening it two weeks later may be high.

________*Some maintenance operations and routine services* must be kept going even while the plant is closed. Don't forget their cost.

________*You might miss some business.* And some customers may be inconvenienced.

________*New employees not eligible* for vacations will lose income during the shutdown—unless you can find work for them in the plant.

________*Employees may not like* to have vacation periods fixed for them.

Following are some of the disadvantages of staggered vacations:

________*Production may slow down* because of operation with a reduced labor force.

________*Bottlenecks may be created* by the absence of even a few people—particularly in small plants or in departments with small staffs where the effect of absences is felt more strongly.

________*Poorer supervision* and short-range planning may result when an assistant takes over during the key man's vacation.

________*Costs can run high* for training temporary replacements and for overtime work made necessary by vacation cuts in the workforce.

—JOHN B. BENNET in *Factory Management and Maintenance* 6/50

THE AMERICAN WORKER'S No. 1 death hazard, measured from the standpoint of potential working years destroyed—considering the normal working period to extend from age 20 to age 65—is a fatal accident, despite the fact that the national death rate from heart disease is 4½ times that from accidents. In 1945, 89 per cent of the deaths due to heart disease occurred among persons 50 years of age or over, the average age being 67.6. In sharp contrast, the average age of death from accidents was 45.8. Thus fatal accidents cut off 1,751,000 working years, or 12.6 per cent of the mythical total working years cut off by all causes of death. Heart disease, on the other hand, accounted for the loss of 1,684,000 working years, or 12.2 per cent of the total. Cancer accounted for 7.5 per cent; tuberculosis, 7.2 per cent; nephritis, 3.1 per cent; and cerebro vascular diseases, 3 per cent.

—From an address by FRANK DICKINSON (Director, Bureau of Medical Economic Research, American Medical Association) before the American Association of Industrial Nurses

An Arbitrator Speaks on the Use of Reported Awards

ARBITRATORS' DECISIONS in labor cases are no longer "dead issues." What arbitrators have said in the past—and why they have said it—are vital in: (1) negotiating the right kind of a bargaining contract; (2) drafting appropriate clauses; (3) settling grievances, particularly with reference to the role of the foreman and shop steward; (4) preparing and proving the arbitration case.

Properly evaluated and used, reported awards can serve as a real stabilizing force on the labor front. Management and unions' present task is to know how and when to use reported awards as aids in all phases of the collective bargaining process. Accomplishment of this job will earn dividends for both sides at the bargaining table.

It must be borne in mind that the arbitrators' opinion or accompanying statement of reasons is deemed an integral part of the award. The opinion is not essential to the awards' validity. In most labor cases, however, one is rendered. The arbitrator's opinion usually sets forth the particular facts and circumstances surrounding the dispute, the major contentions and claims of the parties, and a summary of the proof offered by each. It reveals the substantial reasons which led the arbitrator to his ultimate decision. The opinion determines the applicability of the award to a new situation, and its precedent value to support or distinguish a contention or argument. Reported in full text, the opinion makes available factual material for use in the four phases here discussed.

Reported arbitration awards provide factual source material for preparing and meeting demands and counter-demands in negotiations. Where the industry is only partially organized, or where prevailing wage rates and working conditions are difficult of direct ascertainment, an award in a reported case may give some part of the desired information or provide leads to it. The negotiations may involve the union's demand for the establishment of new minimum job rates. The questions of job comparability and prevailing minimums are then of major importance. Or the negotiations may concern a general, across-the-board wage increase. In such cases, prevailing wage levels, the increases granted by competitors in the industry, or comparative benefits and working conditions are factors of prime importance. Reported awards, more and more, are supplying the necessary data. Arbitrators' decisions in wage cases serve to keep negotiating demands within bounds. They indicate to some extent the area of "probable" expectancy, within which the disputed issue will be settled by the parties themselves or determined by an arbitrator.

In this connection, an apt illustration of the value of reported awards is shown by an article appearing in the *Columbia Law Review* (Vol. 47, No. 6, September, 1947). The article inquired into the factors relied upon by arbitrators in determining cases involving wage increases and wage rate adjustments. Numerous awards published in full text in *Labor Relations Reporter* (Bureau of National Affairs, Inc., Washington, D. C.) and *American Labor Arbitration Award* (Prentice-Hall, Inc., New York) were cited and analyzed. The focal point of the inquiry was the reasoning of the arbitrator in arriving at his award.

The contentions and proof offered by management and unions in wage cases were grouped and discussed under the following factors: (1) prevailing wage for comparable jobs and bargaining units; (2) changes in the cost of living; (3) ability to pay; (4) workers' productivity and wage adjustments; and (5) "patterns" of wage increases. These are the major factors with which the parties concern themselves in wage negotiations. The reported awards indicated the weight and consideration given by arbitrators to the parties' arguments and proof under these factors. The article shows concretely how awards in labor cases, made available in full text, can aid the parties in preparing

for and meeting demands in wage cases.

Reported arbitration awards come into unquestionable practical use when the stage of reducing the parties' agreement to written clauses has been reached. They cannot, of course, take the place of expert attorney and counsel advice in drafting clauses which clearly show the parties' intent. Their use and reference can, however, aid the negotiator in meeting his responsibility.

A striking illustration is afforded in the drafting of a provision allowing for the reopening of the contract during its term. From the number of such cases which arbitrators have been called upon to decide in the past, it is apparent that the parties pay scant attention to the drafting of a reopening clause. Frequently, the clause merely states that the "question of wages" may be reopened. Do the parties mean that only "wage rates" may be negotiated upon? Do they have reference solely to a demand for a general wage increase? Can other "money benefit" provisions be reopened? In a number of reported cases, the question of what is meant by "the question of wages" has been presented to arbitrators, with varying results. The arbitrator has been called upon to determine whether the parties intended the reopening clause to allow consideration of such matters as extension of the vacation and holiday schedules, institution of group health and accident programs, provision for rest-periods, establishment of new minimums, adjustments of claimed intra-plant inequities, etc.

Reported awards point up the necessity for explicitly stating the terms and conditions under which the right to reopen may be exercised. When and how often during the term? What do the parties intend as the effective or retroactive date of any changes negotiated upon? What happens if the parties are unable to reach agreement after the contract has been reopened? If agreement is not reached, can either party submit the matter to arbitration under the terminal arbitration clause in the grievance procedure?

In drafting contract clauses, the negotiator must constantly keep in mind the impact of the arbitration clause upon other substantive provisions. Ambiguous language may lead to conflicting interpretations. Then, the necessity of submitting the dispute for final determination to a third party, the arbitrator, arises. A party armed with a reported award used during the negotiating or drafting phases is better prepared to have its viewpoint sustained in the subsequent arbitration proceeding. As pointed out later, such awards are admissible as evidence, and may be found controlling by the arbitrator.

The proper functioning of the grievance procedure established by the contract is the *sine qua non* of good labor relations. Reported awards can be used to train and guide the parties in all the steps of the grievance machinery. They constitute the "case system" of instruction in industrial relations. In some measure, the classroom is transplanted to the shop, where, perhaps, it really belongs. All levels of management and union, from the foreman and shop steward to the "front offices," stand to benefit from an effective training program for the handling and adjustment of grievances.

In preparing a case for arbitration, reported awards may help in sifting the essential facts from the unessential ones and in determining which arguments will have greater persuasive weight with the arbitrator. In marshalling the material evidence, attention is sometimes drawn to the relevancy of other contract provisions, which parties not infrequently overlook. Thus, in preparing cases involving the interpretation or application of a disputed provision, the "introductory" and "whereas" clauses of a contract should not be disregarded. The same is true of a "management's rights" clause if the contract contains one. Often the intention of the parties under a holiday or vacation clause may be more clearly discerned from the wording of the "veterans' " clause or the seniority clause, which may set forth conditions affecting length of service. Reported awards on similar issues help in projecting an opponent's case, in checklisting necessary items of proof, and in

determining the form of relief or scope of the award that may be sought.

In trying the case, there is no legal impediment to the introduction into evidence of reported awards. They may be offered to and considered by the arbitrator as any other expert or opinion evidence on the issue in dispute. Under the "common law," the arbitrator may receive and consider any evidence offered which in his judgment is material to the points at issue and may aid him in reaching a fair decision. As indicated above, the arbitrator is in no way bound by another arbitrator's decision. Yet, when it is "in point" and the factual evidence is equally balanced, the prior judgment can mean the difference between winning and losing the case.

Reported awards serve a dual purpose in proving the case. They may be used to support contentions or to distinguish them. For the most part, the latter use has been neglected. Often only the proponent or claimant has taken the pains to find a case in point. The respondent is thereby put on the defensive. He limits himself to a challenge of the applicability of the precedent. Usually he is confronted with it for the first time at the hearing. He is in no position to analyze it fully or to meet its materiality with equally persuasive arguments. A little research before the hearing of the available material could have easily avoided or overcome the apparent disadvantage.

The material value of a reported award, entitling it to persuasive weight as a precedent, depends upon: (1) the specific issue submitted in the former case, and (2) the ultimate decision or award rendered.

Principles of contract construction are established by what is decided in reference to the issue submitted. Findings or conclusions contained in the arbitrator's accompanying opinion, not material to the decision of the issue before him, are in the nature of dicta. They may be helpful in formulating contentions and supporting arguments. But, unless they relate directly to the point at issue and are essential to the ultimate award rendered, they will be accorded little weight. The arbitrator's accompanying opinion should be tested by reference to the specific question or issue submitted to him. If, from the full text of the award, it appears that the arbitrator's findings or conclusions are not germane to the issue submitted, the precedent value of the case is proportionately weakened.

The full text of the award and accompanying opinion of the case relied upon should be given the arbitrator. In this connection, a prior award relied on as a precedent should be presented during the oral hearing. Then its applicability can be ascertained. The arbitrator's reaction to it is made known and if "in point," a burden is placed upon the opposing party to meet its challenge. This advantage is considerably reduced or lost if a precedent award is presented to the arbitrator for the first time in a post-hearing brief.

There is no "open sesame" to wholesome labor-management relations. Good faith in making the contract, coupled with recognition of the mutual responsibilities of the parties thereunder, are the fundamental requisites. Within this framework, reported awards and the acceptable principles which they enunciate, properly used at the bargaining table and in proceedings before the arbitrator, can play a positive role today in forging industrial harmony.

—By Jules J. Justin. *Labor Relations Reporter* (Bureau of National Affairs, Inc., 1231—24th St., N.W., Washington 7, D. C.). Vol. 21, No. 15. 8 pages.

IS OPPORTUNITY DEAD? Certainly not, says General Electric in a pungent message to its employees: "In the next five years alone, 45 per cent of all the supervisory jobs in the company—from foreman to president—will be open because of promotion, retirement, or present jobholders leaving the company."

—Lawrence Stessin in *Mill & Factory* 3/50

Handling Post-Deadline News in the Employee Publication

THE PROBLEM OF MAJOR NEWS breaking after the deadline is one familiar at times to all publications.

But what to do about it when the publication is a monthly newspaper for employees designed to carry all news about a major company—and, particularly, when the major news is of the appointment of a new top management for that company?

This was the problem faced by Lever Brothers' monthly tabloid newspaper, *Lever Standard,* when the May 3 announcement was made of the election of a new Chairman of the Board, President, Board of Directors and Chairman of the Executive Committee for Lever Brothers.

The May issue of the newspaper had already been printed and was ready for mailing when word of the announcement was received. The issue already featured a major story—the pictures and plans of the new Lever House, the company headquarters building to be built on New York's Park Avenue.

To carry pictures and biographies of the new company officials to employees in the quickest manner, Editor Jack Barnes adopted this method:

A special supplement consisting of an extra-long tabloid sheet was printed, carrying the announcement, pictures, and biographies on one side. On the reverse side, which folded down over the front cover when the supplement was inserted in the magazine, was printed the paper's masthead and news headline on the management appointments.

Copy and pictures became available only the night before the announcement was to be made public for next morning's papers. By fast engraving and press work, the supplement was run off that night, folded and inserted in the already-printed paper and distributed to New York employees when they arrived at work the morning of the public announcement next day.

Air-mail shipments were made to the 30 other Lever plant and office locations, so that they received the complete story and pictures on the morning following the general newspaper stories.

Thus the company's bulletin board announcements of the new management, which gave the news to *all* employees simultaneously with the public, were supplemented by additional material and pictures either at the same time or the following day.

And by the fold-over method, the full front-page picture of the new headquarters building still received nearly equal play with the post-deadline story.

When a Man Retires . . .

HOW SHALL MANAGEMENT PREPARE its manpower, psychologically, for the "shock" of retirement? After a key man has been retired, how shall management retain the benefit of his experienced counsel? Out of the returns on a questionnaire survey conducted by the Sales Executives Club of New York for the Committee on Retirement of Sales Personnel, these two questions emerge to challenge American management.

After some 10 years of operation, many retirement plans are maturing; and increasing numbers of employees are being dropped from the ranks of active personnel. Thus the questions take on social and economic importance.

And what is management doing?

To quote from the conclusions of A. J. Wood and Company, which cooperated with the Committee in tabulating and analyzing the SEC's questionnaire returns: "There is very little psychological preparation for retirement in existence today. Very few of our respondents felt that, in addition to providing a pension plan, their firms prepare executives, psychologically, for retirement.

"There is also no appreciable degree of special attention given to the older men in an effort to help them overcome the psychological obstacle of fearing their advance in age and to keep their productivity high. Only a little more than one-third of the respondents said they do give such special attention to the older men.

"In addition to a lack of psychological preparation for retirement and a lack of

special attention for the older men, there is truly an enormous waste of experienced manpower *after* retirement. Only about one-fourth of our respondents said that their firms make use of their retired executives and salesmen as advisers or in special jobs for which they might be equipped."

And now, in a breakdown of the 232 returns, to get down to percentages:

At what age do you plan to retire? The greatest proportion of SEC-ers (47 per cent) plan to retire between the ages of 65 and 69; 17 per cent plan to retire between 60 and 64; and a doughty 6 per cent plan *never* to retire. The average age at which the respondents plan to retire is 63.

Do you have your own retirement plan? Forty-eight per cent answered yes; 50 per cent answered no; 2 per cent didn't answer.

Does your company have in effect a retirement plan for you? Fifty-eight per cent answered yes; 41 per cent, no; 1 per cent didn't answer.

Do you honestly look forward to retirement? Forty-seven per cent said they do; and 28 per cent said they do not. One-fourth of the respondents weren't sure. However, a breakdown by age of respondents reveals that while only 24 per cent of those under 50 do not look forward to retirement, the comparable figure among those of 50 and over is 33 per cent.

Does your company have a fixed retirement age? Approximately one-half the respondents answered yes.

What is that age? Ninety-one per cent reported the age is 65.

Does your company operate a pension plan for employees? Fifty-five per cent of the respondents answered yes. However, the provisions of the plans vary so widely that grouping them into categories would be difficult.

Under your retirement-pension plan, does your firm undertake to prepare executives psychologically for retirement? Thirteen per cent answered yes; 85 per cent, no; 2 per cent didn't answer.

Does your firm use its retired executives or salesmen as advisers or in special assignments? Twenty-six per cent answered yes; 67 per cent, no; 7 per cent didn't answer.

Do you believe that some use should be made of this reservoir of experience and seasoned judgment? Seventy-nine per cent answered yes; 17 per cent, no; 4 per cent didn't answer.

—*The New York Sales Executive* 5/2/50

A Plan to Boost Cancer Education

EMPLOYEES AND MANAGEMENT are learning more about cancer as the result of an educational program sponsored jointly by the Lawrenceburg county unit of the American Cancer Society's Indiana division and Joseph E. Seagram, Inc., distillery.

The company holds regular meetings of management groups, promotes group meetings of employees, publishes cancer education material in its house organs, and displays ACS posters throughout the plant. Foremost objective of the program is to acquaint employees with cancer's danger signals and to urge frequent medical examinations.

ONE WAY of giving additional benefits to your old-timers is to grant them longer vacations. The Fluor Corporation, Los Angeles, has put something extra into this formula for its salaried employees beginning with their 25th anniversaries. Here's how the plan works: After 15 years of service, employees get a 15-day vacation; but at their 25th anniversary they get 25 days, dropping back to 15 the next year. Then at the 30th anniversary, the vacation goes up to 30 days, again dropping back the following year. Thereafter, eligible employees get a 30-day vacation period every fifth year.

—*Factory Management and Maintenance* 12/49

Trends in Industry-Wide Bargaining

INDUSTRY-WIDE BARGAINING and, more recently, multiple-employer bargaining is having a profound influence upon our socio-economic philosophy. The historical development of these two powerful mass unit groups has extended over many years, and the significance is such that the thoughtful student of labor-management relations must early recognize the danger involved if certain trends continue.

Industry-wide and area-wide bargaining are evolutionary processes—something like this: A union succeeds in organizing a firm. It will add another company in the same industry. Gradually, it will organize the bulk of employers in the industry. In the first stages, the union concentrates on recognition. The next objective is union security. Achievement of this aim, which took years in the past, has been accelerated by the opportunity presented the unions for holding elections on union shop prior to negotiations. The unions, having been successful in 99 out of 100 cases, present employers with a high psychological hurdle to get over in negotiations, especially in relation to union security.

As each firm is organized and a contract drafted, certain definite patterns common to the industry emerge. Little by little, contract clauses under the guidance of astute union attorneys begin to evolve. This is the process of stabilization. Gradually the union is enabled to lighten its contract administration load by resolving similar problems by similar contract clauses.

The "step ladder" then begins to evolve. For example, the union may succeed in securing from one or more of the larger companies in the industry certain non-wage benefits with respect to holidays, vacations, seniority rights, or incentive pay. This then forms a "pattern" which the union attempts to impose upon smaller companies. Frequently it works the other way around. The smaller or medium-sized companies are "step-laddered" into making concessions as a result of weakness at the bargaining table, and these concessions in turn are used by the union in negotiating with larger companies. The same is true with respect to wage increases, base pay, minimum starting pay, hiring rates, and the like.

The next stage in stabilization—and one close to the time when a demand will be made for industry-wide bargaining—arises out of the operation of the contract through the grievance procedure, through the establishment of uniform arbitration clauses, and finally through the selection of one arbitrator who by reason of his experience and knowledge of similar problems becomes the adjudicator of disputes which arise throughout the industry. Since disputes often arise over contract interpretation of similar clauses, decisions become uniform, and a pattern develops.

At this juncture, a portion of the industry, usually the larger companies, begins to recognize its weakness in bargaining as single companies, as against the well-organized union negotiating team backed up by well-staffed research departments. Employers then begin to think about bargaining in groups. Frequently bargaining will be very informal, with the representatives from several companies sitting down, exchanging information, and interposing a united front in negotiation. If these employers are in the same area and subject to area employment conditions and similar rates of pay, this tendency to draw together for self-protection is greater. Along about this time the smaller companies begin to feel the impact of the unified bargaining of the larger companies. If they are grouped in the same area, for reasons of self-protection, they seek admittance to the group. If they are grouped in other areas, the union frequently forms another cell in its stabilization unit.

Often the smaller employers are marginal. If they are forced to sign the same wage agreements and give the same benefits as the larger companies, they may be forced out of business, frequently to be absorbed by the larger companies.

The unions, however, being made up of realistic men, take the situation as they find it. You may find contracts that are characterized as A, B, and C—each having the same clauses but establishing different scales. Thus the union seeks to keep its members employed and yet, recognizing the problem of the smaller employers, sets up scales of pay which are within their means.

There are some advantages to employers in industry-wide bargaining or in multiple-employer association bargaining. For example, employers benefit from equalization of bargaining power, simplification of labor relations for individual companies, greater responsibility on the part of unions as they become more secure as institutions. Uniformity of contract interpretation, standardization of job descriptions, job evaluations, and terminology within the industry are other advantages.

There are some very unfavorable results of multiple-employer bargaining or industry-wide bargaining—especially in the beginning. The early years usually provide a field day for the union. The initial advantages are theirs, which they will exploit to the fullest before employers within the industry learn to resolve their conflicting viewpoints and to plan, think, and work together in labor relations.

Ours is a competitive system of enterprise Labor seeks to be protected from the forces of competition, while the system as a whole is competitive. Standardization of wages, which is the expressed goal of the unions in industry-wide bargaining, upsets the traditional area wage patterns. Area and geographical wage differentials will be wiped out if the unions' objective prevails. Also, unions seek to bargain for all persons in an industry without the necessity of organizing all companies or plants and even without representation. It has a profound effect upon the employment market area by area. It discourages the normal flow of capital from the high to the low areas, and conversely the flow of labor from the low to the high areas.

Decentralization and the pioneering expansion in new areas is the lifeblood of our economy. The application of rigid wage patterns throughout an industry stops such decentralization. The unions are fully aware of this. For example, in the 1930's, the rubber industry began to migrate from Akron. In 1937 the union levied moneys for the alleged purpose of organizing the hinterland—2½ cents from each member; 1945, 5 cents. Actually, the objective was not the organization of the hinterland but an endeavor to secure a return of the rubber industry to Akron. In recent years, we have "Operation Dixie" by the Textile Workers Union of America, which is currently seeking 4 cents per man for this purpose.

Another important consideration for a healthy economy is a healthy rate of new business. New business frequently starts with small capital. It must pay wages on the basis of the prevailing rate in the community. Industry-wide bargaining tends to accelerate the death rate of small employers and to have a deterrent effect on the birth rate. It promotes monopoly in the hands of well-established businesses, which tends to consolidate and merge these smaller companies. Marginal producers are eliminated and competition is stifled.

The next step in the process is the fact that ever-increasing labor costs, based upon stabilization and alleged ability to pay, are passed on to the consumer in price increases. A company and an industry adjust to the wage, rather than the wage adjusting to the company or the situation in which the industry finds itself. The traditional influence of the labor market has but little effect on price. Supply and demand adjust to price rather than price to supply and demand. This produces inflexibility, thwarts the operation of the economic laws produced by our system of private enterprise and free economy, and inevitably results in consumer exploitation.

Monopoly tends to develop because we have two great monopoly forces at work—larger and larger companies meeting larger and larger unions. This produces

a state of monopoly capitalism which is a way-station to socialism. To the degree that monopoly forces attempt to work against the public interest, the government in time will be forced to act. Coordination of wage demands in the several areas which upsets the traditional local area labor markets will, I believe, in time be declared against the public interest, since by this device labor is in effect creating a monopoly position which is the same as though competitive plants in an industry were to agree upon a common price policy. Collusive price fixing is contrary to public policy and is a violation of the anti-trust law. The influence of powerful unions tends to fix costs and, by exerting such influence, tends to fix prices in the same manner. If industry-wide bargaining continues, with a powerful union on one hand and a powerful employers' association on the other hand—one stabilizing wages and the other stabilizing prices—two forces will merge in an attack on the consumer which is contrary to public interest. A grave question is raised as to what the public interest is under the impact of these forces, and this in time will lead to governmental intervention.

Unions and employers are beginning to recognize the necessity for bargaining for wages and cost benefits in the local areas. The great growth of these area bargaining groups seems to indicate that collective bargaining must be and is being carried on with due consideration and restraint in the light of the local employment markets and local wage characteristics.

—By Hiram S. Hall. *Mechanical Engineering*, December, 1949, p. 1019:4.

Labor Monopolies—What to Do About Them

In your dealings with unions, you can help curb the growth of labor monopoly. Right at the start, frank self-analysis is in order. Some employers have given active or passive support to the accumulation and abuse of power by labor. If you are among this group, it would be well to re-examine your reasons and recheck their soundness. The most important thing you can do is demonstrate that good labor relations don't grow in an atmosphere of "big stick" union tactics.

1. *Improve local union relations.* This is a *must,* regardless of troubles with the international union officers or policies. You have the opportunity and the obligation to gain and hold the respect of your workers by keeping good relations despite outside influences. A significant part of your job will have been accomplished if you only keep your workers informed of what's going on all the time. Don't forget, too, that the worker has a family, and friends. Keep the community informed as well.

2. *If possible stay out of industry or area-wide bargaining.* You may get some benefits, but you can also count on some first-class headaches. It's a good idea also to steer clear of plans to fix the same contract expiration date for the entire industry, locality, or region. This is one way to invite pressure for patterned settlements, in the absence of formal industry-wide agreements. If you are already involved in industry-wide or regional bargaining, make sure your voice is heard—take an interest in everything that goes on.

3. *Resist pattern bargaining.* But do it on a factual basis. Make sure you have analyzed your problems so that you have the basis for sound and intelligent resistance. When business is good, there will probably be times when you can see clearly that the pattern is a satisfactory settlement for you. Even when you feel you can go along with the specific terms at issue, it's still a good idea to make your objections to pattern bargaining known.

4. *Watch out for "most favored nation" clauses* providing that the union won't give anyone else more favored terms than you have received—or will grant you the same if better terms are given elsewhere. This is the very type of bargaining that gives unions the beginnings of more heavily concentrated power.

5. *Don't get involved in collusive plans.* These often sound innocent, but they

aren't. Plans to "stabilize" matters within the industry or area are particularly likely to get you into trouble. If you voluntarily agree, without notable and sincere objection on the record, to reduced workweeks, reduced production schedules, or other systems to keep production short and prices up, you may find yourself in trouble as a violator of anti-trust laws. This is the type of union activity which the courts have found to be in violation of the Sherman Act. Where the employer cooperates with the union to restrain commerce, both may be guilty.

6. *Don't agree to restrictionism in any form.* It is far easier to say "don't agree to restrictions" than to avoid such agreements in actual practice, regardless of whether you are dealing with a craft union or an industrial union. Nevertheless, this is a major problem. Negotiated restrictions can eat up profits. More important, they can destroy your power to run your own business.

—M. J. MURPHY in *Factory Management and Maintenance* 11/49

Health and Welfare Provisions of 18 Companies

TODAY one of every two contracts negotiated provides for such fringe benefits as life insurance, accident payments, hospitalization. Employers faced with the job of setting up health and welfare benefits therefore should find out beforehand what patterns are developing. To guide them, the ERB research staff has studied the social insurance plans of 18 representative firms—ranging from one that employs 200 to a real giant with a 70,000-man payroll. Result: A majority of health and welfare plans contain these four major segments:

1. *Life insurance,* which is figured in one of three ways: (a) Each employee is granted the same amount regardless of age, occupation, sex, etc. Example: American Pulley Company's plan. (b) Amount of insurance varies with length of service. Example: Lever Brothers varies life insurance from $500 to $1,500, depending on length of service. (c) Insurance varies with earnings. Example: Bethlehem Steel computes amount of insurance for each employee by multiplying 1,780 hours by his standard hourly earnings.

2. *Weekly accident and sickness benefits,* which are accompanied by special features: (a) Most benefits cover off-duty sickness like colds, flu, and off-job accidents. These benefits are in addition to any workmen's compensation which is paid for accidents which occur in the plant. Waiting period before employee can start collecting is usually one day for accidents and three, six, or seven days for illness. (b) In most instances, there is a ceiling on benefits received under accident and sickness categories.

3. *Hospitalization,* which has as many variations as there are plans. Here are some of the more standard features: (a) A flat sum for each day a worker is hospitalized—$8 a day being most common. Period covered, about 120 days. (b) A flat sum is allowed for surgical dressing, X-ray, anesthesia, etc. Example: Wagner Malleable Iron Co. allows $50. (c) Surgical benefits are being included in more and more agreements. Under this arrangement a flat sum is provided for the operation. Example: $100 for an appendix, $25 for tonsil removal, $150 is the most common maximum figure for each operation. (d) Doctors' fees—for home and hospital visits—are appearing in some programs. There is usually a ceiling on the sums allotted. (e) Maternity benefits for women employees have become standard. Example: The California Metal Trades Association allows $100.

4. Coverage in social insurance for workers' dependents, which is more prevalent than ever before. In the Bethlehem Steel Company contract, a worker's wife and dependent children up to age 19 are eligible for 70 days' hospitalization at no additional cost to the employee.

The inevitable question—how are these programs financed? Though most unions are willing to have the workers share the costs of health and welfare benefits, employers still foot the bills in many instances. In still others, the employer pays a minimum cost and if the worker wants "extras," he shells out the cost himself.

—*Employee Relations Bulletin* (National Foremen's Institute, Inc.) 11/23/49

Statistical Quality Control Can Cut Costs

By applying statistical techniques you can get away with inspecting only a small fraction of your product—and still be sure of quality.

What you do is inspect a certain number of units (a sample) from a larger number of units (a batch). Depending on the quality level you want, the statistician can tell you the proper combination of sample size, batch size, and rejection number to use.

You inspect the units in the sample, and if the number of bad ones in the sample is less than the rejection number, you will know that in 95 cases out of 100 the quality of the whole batch will be as good as or better than the quality level you have specified.

If you have 100 per cent inspection, why should you even consider statistical quality control?

At Federal Products Corporation, we found out, through a cross-country survey of several plants, that "100 per cent inspection" *doesn't* mean 100 per cent perfection—*that the over-all average for accuracy in "100 per cent inspection" seems to be about 80 per cent.* A carefully controlled test, with successive inspections of the same lot, showed this.

Inspection	*No. Defectives*	*No. Spotted*
1st	100	68
2nd	32	18
3rd	14	8

After three "100 per cent inspections" there were still six defectives concealed in the lot! It was then turned over to a specially selected team of inspectors: They found four of the remaining six defectives.

We found that "100 per cent inspection" meant that anywhere from two to 32 out of 100 defectives would slip through. About the best inspectors could show, on a day-in, day-out basis, was 98 per cent efficiency.

If 100 per cent inspection was not perfect insurance, then it was possible statistical quality control might be as good or better. We stopped reaching for the unattainable moon of perfection and began to consider realistically our own probable margin of error. How could we keep it to the practical minimum?

Even "statistical" quality control requires inspectors, so the first question was, "*Why* is 100 per cent inspection so unreliable?"

We found monotony and fatigue are important factors. An inspector facing an endless succession of days combing through someone else's bad work suffers in spirit.

A more important factor is ineptitude. In selecting inspectors, too little attention is paid to alertness, coordination, ability to make quick decisions, conscientiousness, and the stamina to withstand monotony. Too often workers who don't fit into the production routine were shunted into "inspection." The result is often like assigning the color blind to match colors.

Having decided to use S. Q. C., the first thing we did was improve the traditional inspection setup. Training the inspectors in statistical quality control techniques automatically eliminated some of the square pegs—the "inspectors" who couldn't inspect. Inspection job ratings were raised a few levels, and pay as well. Management made an immediate investment in order to reap the expected harvest from savings in scrap and rework. Also, inspectors were given as much diversity as possible in their work, and carefully timed recesses were arranged. These steps, together with a consistent sampling of each inspector's work, raised the level of performance in the inspection department.

It was necessary to take some of the burden off final inspection. Apparently a man can stand looking at just so many bad units. As the proportion of defectives increases, the quality of inspection becomes rapidly worse.

Therefore, routine inspection was included in the production and assembly workers' cycles. This meant fewer bad parts were sent to assembly, fewer bad assemblies were sent to final inspection.

Out of our experience there developed three basic rules:

1. The best place to try out statistical methods is in a department that already has a *good* production record.

2. Statistical quality control methods should first be used in parallel with existing inspection routines. They should not replace or interfere with them.

3. No one statistical quality control technique is effective in all situations; in fact, some conditions need no such control. Where it is used, the particular technique has to fit the particular situation.

One useful basic form of quality protection is the "toll gate." A toll gate is an inspection station set up along the regular product flow lines.

Toll gate inspectors work to a sampling table that shows the actual count of defectives permissible in a lot of any given size. It also makes provision for a decision in "borderline cases." The simple count of defectives per batch is final. Here the answer is black or white; there is no gray, no room for argument.

The system at each toll gate is the same; if a lot "pays toll"—if the number of defectives is no greater than the number permitted, according to the sampling table—the inspector accepts the lot.

Toll gates are used in three spots: to check finished orders (these stations are set up in the truck pickup area); to check lots destined for stores or stockroom (this work is routed to a central inspection area); and to check work from individual machines (work from each machine is decreased and sent along the normal flow line to the inspector once an hour).

On the theory that the burden of screening bad parts should be placed on the producer rather than on the inspector, *a lot rejected at a toll gate is sent back directly to the department or operator responsible.* If the cost of screening the parts exceeds the inventory value, the operator himself throws the work in the ash can. If the screening is economically justified, the operator gets the job. If the lot is big, or if faulty equipment is responsible, an inspector is sent in to help him.

Such unorthodox tactics seemed pure heresy, at first, in the religion of modern production departments. But when it was realized that *net good production* brought more honor than *gross production records,* the protests subsided.

At what quality level should lots be rejected? This question too had to be answered statistically. Experiments show at exactly what point the cost of getting higher quality outruns the value added. In this study, two curves were plotted on a graph—one showing the gradual reduction in percentage of scrap and rework at final inspection, the other indicating the cost of changes to improve quality, e.g., machine overhauling, purchase of better gauges, etc. The graph showed that for a time, scrap percentages dropped rapidly, while costs mounted slowly. But then costs suddenly shot up.

At the point of intersection of the two curves, costs began to outrun value. At this point final inspection was finding 2 per cent defectives in work received from final assembly. If we tried to get more perfect work from final assembly, we would be spending more in the effort than we would save in value of units. So we set our sights practically for 98 per cent efficiency—instead of the mythical and non-existent "100 per cent."

—By Clifford W. Kennedy. *Factory Management and Maintenance,* January, 1950, p. 136:3.

Productivity Increase Needed to Raise Workers' Real Wages

AN HOUR'S WORK will be worth twice as much to the American worker by 1980 if the country merely maintains the same rate of progress it has averaged over the last 50 years. That's the hopeful prospect held out by the Research and Policy Committee of the Committee for Economic Development in an analysis of past gains and future possibilities of raising the standard of living.

Pointing out that "real wages are what money wages can buy," the committee noted that "the problem of raising the standard of living of wage earners is primarily one of raising real wages."

"In the last 50 years, real wages per hour in the United States have increased more than threefold. Today the average employee receives about $1.33 an hour. Back in 1900 the average was about 43 cents an hour in terms of 1949 prices. This represents an increase of approximately 2.5 per cent per man-hour per year," the CED committee said. "Allowing for changes in prices, an hour's work of an average employee today can buy more than three times as much in goods and services as an hour of work 50 years ago."

The committee cited additional gains in "real income" in advances in industrial power, transportation, manufacturing and distribution, development of new products and processes, and in leisure. The committee said, however, that the gains in real wages should not becloud the fact that many persons still have very small earnings and present special problems.

"It ought to be possible to raise real wages in the future as rapidly as in the past," the committee said. To double the average worker's real wages in slightly less than 30 years means, the committee said, raising output per man-hour, keeping people steadily at work, and also seeing to it that jobs increase as fast as new workers join the labor force.

The committee outlined 10 steps toward its objectives: (1) Stabilize industrial growth and avoid serious business recessions; (2) reduce seasonal unemployment; (3) improve the quality of new businesses and reduce their failures; (4) reform the tax system to make risk-taking more attractive; (5) stimulate more rapid replacement of equipment; (6) increase the imports of the United States relative to its exports; (7) provide more employment opportunities for older people; (8) improve the incentives for efficiency among the rank and file of employees; (9) develop regular methods of drawing upon the knowledge and training of the labor force; and (10) abolish make-work rules and featherbedding.

A Program to Raise Production, Cut Waste

A CONTINUING DRIVE in the plants of ATF Incorporated to tighten production, cost and quality standards, has enlisted the aid of a new character named Wastie, central figure in a series of cartoon-style incentive posters.

Wastie eats money and loves oil-slick, accident-causing floors. He dotes on slipshod methods that make the scrap pile grow, and he is passionately fond of the lazy and forgetful. Wastie is a bum.

The posters featuring Wastie come on the heels of a series of hard-hitting "let's get competitive" placards using the theme that "the customer is boss again," in which the customer peered over the employee's shoulder at work in progress, screamed at waste and beamed at efficiency.

In preparing these posters, ATF's human relations department often varies them a bit so they will apply specifically to individual plants and the products made in them.

Sample sets of the posters for reproduction and use by other companies in their plants are available on request to: Human Relations Department, ATF Incorporated, 200 Elmora Avenue, Elizabeth B, N. J.

Cutting the Cost of Plant Maintenance

IT MAY BE WORTH 1.5 cents of each dollar of your net sales—the equivalent of $1,500 for every $100,000 of net sales—to organize a sound plant maintenance program and adhere to principles of good maintenance. That's the advice of C. C. Winston, senior staff engineer of the management engineering firm of Wallace Clark & Co., New York, who considers the fundamental principles of good maintenance to be: (1) Know what requires maintenance; (2) know the condition of that equipment; (3) schedule lubrications; (4) have a job order system for requesting and authorizing work; (5) plan the work of each mechanic each day; (6) size your maintenance force to the job at hand; (7) know your costs by job order; (8) know your costs by item of equipment; (9) size your maintenance stores on estimated usage; (10) pay your maintenance people adequate salaries and wages; and (11) insure top-level interest by adequate executive reports.

Those 11 rules are the prescription for preventive maintenance—the maintaining of plant and equipment so that costly breakdowns can be prevented.

It's amazing in how many instances this theory isn't respected or is forgotten, Mr. Winston declared at the recent Plant Maintenance Show and Conference, Cleveland. "In many cases the emphasis is centered on repairing equipment after it has failed rather than concentrating effort on anticipating and preventing these interruptions," he points out.

And well he might feel that way! American industry spent $8.6 billion on maintenance and repairs during 1948, according to James E. Sutherland (Vice President, Detroit District, McDonald Bros., Inc.), another speaker at the Plant Maintenance Conference. The 1948 expenditure for maintenance and repairs exceeds industry's net profit of $8.4 billion in 1929 and is equivalent to 40 per cent of the 1948 net profit of $21.2 billion.

—*Steel* 1/23/50

Labor Leaders' Views on Boosting Productivity

IF LABOR LEADERS suddenly were to find themselves on the other side of the fence as bosses in industry their first step toward getting greater output per worker would be to hire young empolyees and train them, according to a recent *Business Week* survey.

In a study made by the magazine's correspondents in 14 cities from Boston to Los Angeles, a majority of labor leaders agreed that employers should not place too much emphasis on work experience.

"The man with a long employment record may be ingrained with low-production work habits," say the union leaders. "If so, it's often hard to get him to change them. It's better to pick younger hands with little experience who can be trained to accept higher production norms. Besides, younger workers are likely to be eager to show the boss what they can do and to make their mark."

Other procedures union leaders say they would carry out if they were to become bosses would be: build psychological security for employees by guaranteed annual wages, pensions, and a program which would make the employee feel that the employer really cares about these things; let employees feel that plenty of other people want their jobs so that they will speed up their production; pay more for producing more; supply employee with information on the importance of his job and the competition his employer faces with other concerns; make workers partners in the business either by profit sharing or by placing employee representatives on boards of directors, labor-management committees, letting employees elect company officials; use more machines instead of manpower; make work more interesting by providing challenges in the work; hire foremen who are well-liked.

AT Johnson & Johnson, some departments maintain a Quality Table, where exhibits of good and bad quality are displayed.

—LAWRENCE STESSIN in *Mill & Factory* 3/50

An Effective Maintenance Program

THE KEY to the scheduled maintenance service program of The Hoover Company's electrical appliance and die casting manufacturing plant is proper coordination. Maintenance in the multi-storied buildings of this plant, totaling 600,000 square feet and employing 1,400 production workers and 500 office and engineering personnel, is handled by 150 maintenance employees

Coordination is necessary because many types of craft labor are called upon to maintain the investments in equipment, buildings and land. Each craft is supervised by foremen who are specialists in their respective fields. Unity of purpose, which is protection of capital investments at lowest maintenance cost, cannot be achieved without a centralized system of scheduling services and reporting the nature of repetitive equipment failure.

The first step in the organization of a scheduled maintenance service program is the identification of the equipment to be serviced. For accounting purposes, property tag numbers are issued and attached to machinery and office equipment, when the equipment is received All equipment is classified as to type, e.g., "D.C." for die casting machines. Number tags are made of 20 gauge steel, white enamel, with decal letters and numbers placed thereon. The tags cost about 12 cents each, and are large enough to be read at a distance of 20 feet.

After equipment is identified on location, the office record of equipment must be established.

Beginning with the title the equipment service records provide the following information:

1. Complete identification of the apparatus including maintenance service number, property tag number, machine serial number, name of manufacturer, purchase price of equipment and accessory equipment.
2. List of drawings and bulletins on file which pertains to the apparatus.
3. Location schedule showing where the apparatus is in the plant.
4. Service requirements (self-explanatory by reference to the card).
5. Maintenance requirements, in which are listed the periodic operations to be performed to maintain the equipment.
6. Schedule of when these operations should be carried out during the year.
7. Maintenance and repair record which shows the cost of maintenance on the equipment during the year.
8. Machine follow-up date for which a plastic slider is mounted on the card so that a glance at a drawer of cards will show what equipment must be serviced that week.

The service record cards are kept in flat drawers of a metal cabinet in such a manner that the bottom margin of each card is exposed and a celluloid slider is mounted on the bottom of the card. On Monday of each week a quick glance at the margins of these cards will show what equipment in the plant has some service to be done on it some day that week.

With the equipment identified as to location, the office record of the equipment completed, and the schedule established for periodic maintenance requirements, instructions are issued to maintenance employees for performing the operations. Instructions for service requirements, such as lubrication adjustment and some inspections go out in the form of lists of weekly or daily operations to maintenance foremen who establish plant routes to be covered by their subordinates. The second type of instructions are those wherein maintenance employees are required to check a number of different characteristics on a single machine. These instructions are listed by a check-off system. An example of this type of check-off is in the service or inspection of overhead chain conveyors. On this type of order the employee is required to ring the inspection card at factory time clock.

The third type of instruction is issued on what is known as a maintenance job order form, and covers repairs to machinery breakdowns. In addition to the information at the top of the form, the

form identifies the maintenance group making the repair, the person requesting the maintenance work, and the account number to which the labor is charged. In the main body of this form, are provisions for time-stamping the order at the start of the job and again at the completion of the job, together with information on the clock number of the employee, and space for the serviceman to record the nature of the repair. This form is the most important of all instructions, since it affords a repair history on particular pieces of equipment and affords information as to the principal causes of breakdown.

—By Paul D. Beals. *Mill & Factory,* June, 1950, p. 147:3.

Marketing Management

Tell Your Story to Tomorrow's Customers

New-style business-sponsored teaching aids designed for use in junior and senior high schools have won a place in effective public relations and sound sales promotion. These new-style educational materials are highly visual, well organized, simply written They supplement textbooks and are carefully fitted to existing courses of study. They catch and hold the interest of students. They are adaptable to the use of educators who work with adult groups. They give consumers of today and tomorrow clear-cut information on important consumer goods and services.

Each year an increasing number of business firms and trade associations are finding it desirable to sponsor teaching materials. In combination with advertising and sales promotion, teaching aids round out a program of consumer stimulation and make a forthright appeal to young people who are soon to be major buyers of consumer products.

What type of teaching aids will justify their cost? Surveys indicate that schools are eager for and will use materials from business only if they are:

1. Geared to existing courses of study
2. Free from too much or objectionable sales promotion or brand advertising
3. Simply and concisely organized and presented so as to offer practical assistance as reference materials or active classroom materials
4. Factually sound and unbiased.

All companies and business associations have a stake in improved public education, but educational programs geared to teaching objectives have proved especially important to groups with certain types of products or certain objectives. Your organization should seriously consider the need for a school program if you:

1. Directly produce consumer goods and services.
2. Manufacture a product which is important in the production of other consumer products.
3. Are interested in getting across an idea or correcting a general public misunderstanding of an idea—such as discriminatory laws which limit trade, the significance of private enterprise, the problems of labor and management.
4. Are anxious to explain or justify prices and costs on the score of quality.
5. Face new competition in a field that has been largely exclusive.
6. Wish to cement wholesaler or retailer relationships through stepped-up consumer education.

When it comes to teaching aids, the teacher is your customer. A school program should be tailored to suit her just as a consumer product is carefully developed to stimulate demand. Suppose you, for example, manufacture paints and varnishes. The schools are interested in home

decorating, but only in certain home economics courses can teachers logically discuss how to choose and use paints. Two weeks in an entire year may be all the time that will be devoted to the subject. If you want your teaching aids to slip into this ready-made spot, don't overload the teacher with more than she can possibly use. Learn how she teaches, and develop your materials to take a load off her shoulders. In other words, think from the teacher-customer's viewpoint rather than your own, and find out how to tell your story as she wants to hear it.

Teachers are especially interested in visual teaching aids, because picture stories speed comprehension and improve retention of knowledge. From a war-time experience in education, the United States Navy concludes that with good visual aids, students learn up to 35 per cent more and retain up to 55 per cent longer. Movies and slidefilms head the list of effective visual teaching aids. But running a close second come pictorial wall charts, well-illustrated manuals and project books which limit copy and emphasize illustrations. Semi-cartoon charts and illustrations are popular and have a universal appeal to young people and adults —but the semi-cartoon with its realistic touch should not be confused with the comic strip to which many teachers object.

Teachers prefer films 15 or 20 minutes long to those lasting a half hour or more. The shorter film leaves time in the average class or club period for discussion which is necessary to drive home salient points. Many educators frankly prefer slidefilms to movies. The slidefilm can be shown even by students to small intimate groups, and it can be repeated for emphasis on important information.

A wealth of teaching aids is now available for the home economics teacher. In fact there is some danger of a flood in this area. But in social studies and business education where a very sturdy job on American business and our free enterprise system can be done, there are all too few educational materials from the people best qualified to talk about American business. The average board of directors can see promoting cheese in the home economics laboratory where cheese will be used in food preparation. They find it more difficult to understand the blend of history, economics and current problems which makes up the social studies or business education program. Yet in social studies lies a valuable opportunity for many companies which have a great story to tell of product development, consumer service, scientific research, the growth of industry, labor and management problems, job opportunities, international relationships.

Whatever type of educational program you are planning, you need information and suggestions from the front-line educator as well as from state and national administrators. More of the people who prepare teaching aids should get inside schools to see what goes on. And more teaching aids should be subjected to the sharp but effective criticism of people who will use those teaching aids. Educator opinion can be surveyed both before and after a program is launched.

A major point in any good educational program is continuity. The only educational program worth even an initial investment is one which projects itself over a period of years with new materials or new study units added from time to time, so that teachers and club leaders come to depend on the program sponsor and look to that sponsor as the source of information properly arranged for active use. This kind of educational program pays its way, not in immediate sales, but in better customer relations and better understanding over the years.

—By Rosanne Amberson. *The Public Relations Journal,* May, 1950, p. 2:3.

PACKAGING NEEDS: Retailers find display impact important in packaging, but want also: better "stackability"; reusability; fewer ad inserts; spouts for dry-flowing products; containers easing consumer transfer to other container.

—*Food Field Reporter* (as digested in *Brief*)

Does Your Product Distribution Match Your Advertising?

NATIONAL ADVERTISING can produce highest returns only when it is accompanied by national distribution. A distribution that could be classed as "national" 10 years ago is not true national distribution today, however. National distribution may be properly defined as a distribution that, within sound economic limits, exposes a line to the optimum number of shoppers who might conceivably buy it.

A distribution that represents national distribution in 1950 may be obtained either by: (a) cutting the number of small retailers and concentrating on large retailers in all fields; or (b) adding to the total of retailers by selling to everyone, irrespective of size or field, who wants the line. The decision depends only in small measure on the line. In general, the more broadly and frequently a line is bought by the public, the more broadly distribution should expose it to the public. The trade franchise is losing its importance to manufacturers. To refrain from broadening distribution for fear of "trade reprisals" invites the much more serious possibility of "shoppers' reprisals." Today, more than ever, the consumer franchise is vastly more important than the trade franchise!

Exposure of a line in advertising must be accompanied by at least an equal exposure via distribution. With retailing becoming concentrated in a few strong hands and with all large retailers broadening their inventories and catering to one-stop shopping, most lines no longer get sufficient exposure via distribution when sold through just one type of outlet.

Let's take some typical cases:

Camera flash bulbs, prewar, were sold primarily in photographic supply stores. Since the war's end, a considerable variety of other outlets have added flash bulbs. Sylvania Electric Products Corporation has smartly made its flash bulbs available to these new outlets In the last 16 months, Sylvania has added over 20,000 retail outlets other than photographic supply stores. In the remaining months of 1950, Sylvania plans to add another 20,000 retail outlets other than photographic supply stores. This does not include a recent addition to Sylvania outlets of 25,000 independently-owned food stores known as National Retailer-Owned Grocers, Inc., the buying agency for the Cooperative Food Distributors of America.

The standard drug items—dentifrices, aspirin, shaving cream, etc.—were formerly the private preserves of the drug store. Now the food store is doing a gigantic volume on these items; a volume that jumps enormously every month. Some drug manufacturers were reluctant to follow the clearly marked trend. Most of them now have their lines in food stores. And many of them also have their lines in the variety chains, as well as in other outlets.

In the battle for distribution, too much exposure is poor tactics when it results in excessive selling costs, transportation costs, credit costs, handling costs, etc. But more advertised lines are under-exposed to daily shopping traffic than are over-exposed. And more advertising lines are unwisely exposed than are over-exposed; there's a difference! These latter include lines sold in thousands of fringe outlets that represent economic liabilities.

Limited distribution handicapped advertising when a food store was really a food store and a variety store was indeed a five-and-dime. But now one-stop shopping is the Mecca of all large retailers. Robot retailing techniques are the means of transportation to that Mecca. Consequently, it is clear that limited distribution so drastically cuts down brand exposure at the point of sale as to cancel out a substantial part of the exposure achieved through advertising.

There have been endless debates over which comes first—distribution or advertising. But it can hardly be disputed that, today, distribution is a part of advertising —and advertising is a part of distribu-

tion. The two cannot, should not, and must not be separated!

When we note that many manufacturers' advertised brands are today better advertised than they are distributed we are simply saying: These brands are getting splendid national advertising but poor in-store advertising. After all, distribution is, to all intents and purposes, a *form* of advertising—in-store advertising. To expose a line to general public gaze in advertising, and then to limit the exposure of that line in distribution just doesn't make economic sense.

The manufacturer who wants increased volume will achieve it more economically through greater exposure of a well-planned line to in-store shopping traffic in those outlets patronized by the largest part of the shopping public than by any other single merchandising procedure.

—*Grey Matter* (Grey Advertising Agency, Inc., New York), June 1, 1950, p. 1:4.

Unique Contest for Salesmen Pays Off

ANY SALES MANAGER will agree that it's a good salesmen's contest if it sells more goods. But if the contest does a double job—sells more goods and helps train the salesmen—then it is a better contest. And when a contest for salesmen not only moves the merchandise, and educates the salesmen but also improves company policies—well, it's about time to reach for that superlative.

The H. D. Lee Company conducts a contest that pays off in those three ways and has several unusual features. The contest lasts 10 months—from January through October.

From its nationwide sales organization, the Lee Company determines the 10 salesmen who have attained the highest level of balanced business operations, and these 10 men form an Advisory Board that meets at our Kansas City headquarters, advises top management on company policies and offers ideas and suggestions. In addition, the winners have the satisfaction of official recognition for a 10-month, balanced, productive, prize-winning record in a stiff national contest. Finally, the men are given high quality entertainment and relaxation that adds to the winners' spoils.

But to earn a spot on the Advisory Board a Lee salesman must not only show a high sales volume, he must be well rounded in every phase of merchandising and advertising. He is graded each month on 20 different items, the first 10 of which are concerned with sales quotas on various Lee work garments. The other 10 items check the salesmen's merchandising and advertising ability.

On items 1 through 10, if a garment is in short supply, the salesman gets a quota which he cannot exceed. But on items in better supply each salesman gets his normal quota, plus an extra quota for the particular month. If he sells the normal quota, he is rated 100 per cent; and if he sells the extra quota, he is credited with more than 100 per cent.

Items 11 through 20 are concerned with such matters as merchandising the national advertising to dealers (of which the sales manager or field sales manager is the sole judge); placing dealer help advertising (also judged by the sales manager); inspiring dealers to run local advertising; selling cooperative advertising; conducting local promotions; working the territory in a consistent and conscientious way; and being prompt in mailing reports, route sheets, etc. At the end of each month, the salesmen's accomplishments on each of the 20 items are recorded on quota sheets and sent to them.

The major payoff the company gets as a direct result of the contest is the advice and recommendations from its top salesmen. By establishing the Advisory Board, Lee officials created an annual opportunity to hear directly from the men on the firing line—the most competent all-around sales, merchandising men and purveyors of advertising it has in the field. The salesmen welcome the opportunity to get their ideas across to top management direct, and management has found the suggestions both interesting and profitable.

—C. A. REYNOLDS in *Printers' Ink* 3/24/50

Some Do's and Don'ts for the Prospective Exporter

DOING FOREIGN BUSINESS is basically the same as doing domestic business, except that it is more complicated. The same principles and rules govern, but the scene of operation is moved abroad. Generally, the methods that are successful at home can be adapted to foreign conditions. But unless a producer is content to sell his goods through an export house in the United States, he will find that he has to consider many more factors than in doing domestic business.

There is no magic formula for building a sound export business. There are, however, certain steps, distilled from the experiences of generations of business men, which will guide the prospective exporter in determining whether to export, what to export, and in which countries to seek business. Basically, these steps come down to: (1) Decide whether or not you will seek export business. (2) Define and place responsibility for export planning and possible operation. (3) Consider what you can sell. (4) Determine where you can sell. (5) Appraise the means of selling open to you. (6) Examine the requirements of special export operation: financing, credit, shipment, operating personnel. (7) Estimate your manufacturing requirements. (8) Estimate your operating funds and plan sources. (9) Make your decision. (10) Implement your final decision with a plan.

The information needed to help you make these decisions is available from many sources: Local Chambers of Commerce; the Chamber of Commerce of the U. S.; U. S. Department of Commerce; foreign departments of banks; manufacturers' and trade associations; the editors of export trade journals; specialized export trade and credit service agencies, etc.

There are many points in favor of decision to seek export business. Export business can, in many cases, help to level out the peaks and valleys of production; it can lower production costs by bringing in added volume; it can sustain employment; and it may compensate for declining demand when that occurs in sections of your domestic market.

If you've decided the export business is for you, here are some "do's and don'ts," gathered from the experience of many exporters.

1. Design, pack and price your product for export with just as much care as you would use in marketing it domestically.

2. Check your international trade plans with experienced advisers before you adopt them as policies.

3. Export is for those who have serious, long-term intentions. Go in to stay and build for the future.

4. The size of a foreign market can't be judged simply by its population. Not all your products will be salable in every country of the world, any more than they are salable in every section of the United States.

5. Permanent export trade is built by maintaining your quality standards when producing for export. Generally, you won't be able to compete with foreign goods on price, but you will be able to compete on quality.

6. Other countries are not a proper dumping ground for excess, obsolete or defective products, if you are going into foreign business to stay and for permanent profit.

7. The same high standards of business dealing as have brought you success in the domestic market, based on fair dealing, mutual respect and consideration, will serve you equally as well in foreign trade.

8. There is need for patience in exporting. Adjustments must be made because there are greater differences between buyer and seller. Every purchase and sale and shipment has to comply with laws and regulations of *two* countries.

9. Plan for systematic development of your foreign business country by country. Few firms can successfully attempt to cultivate the whole world market at once.

10. Allot a fixed budget for initial export market development expense. Nib-

bling away at export markets is time and money wasted.

11. Select an export manager who has demonstrated ability to build business.

12. Don't overlook the possibility of doing your export business through an independent export manager, who serves several firms, if your business is not large and you cannot afford a full-time export manager.

—BY DEREK BROOKS. *Exporters' Digest,* May, 1950, p. 20:2.

Some Major Reasons Why Salesmen Fail

WHAT ARE the practical, down-to-earth, human reasons why salesmen fail? From a management standpoint, why do some salesmen fail to reach a satisfactory level of earnings or, having reached it, later turn downward and decline until they quit or are fired?

To answer this question for his company, Lawrence E. Murphy, secretary and treasurer of Murphy Products Co., Burlington, Wis., made a comprehensive study of sales failures in that company from 1939 through the first 10 months of 1949.

Here are some of the failure classifications that were revealed by the study: (1) the man who has important outside income or important outside interests; (2) the man in poor health; (3) the man who is over-age; (4) the seemingly lazy man; (5) the man who thinks he is too big or too good for his job; (6) the time-waster.

BURTON BIGELOW in *Sales Management* 12/15/49

Financial Management

The Cost Aspect in Pension Planning

"OFTEN THE HIGHEST price that can be paid is to buy it too cheap" has never been more applicable than in the field of pension planning. It is doubtful that there is any other phase of the operation of a business where there are more people seeking bargains and where they are less likely to be found.

The cost of any retirement program will be the amount actually paid in benefits to those who retire, plus cost of administering the program, less interest earned on any funds set aside, plus or minus any capital gains or losses. None of these items can be predicted with certainty.

Employers and employees should be concerned with and insistent upon knowing the estimated liabilities for any retirement program based upon *maximums*—not minimums. (The range can be as much as 70 per cent.) The only way in which it is possible to make costs "cheaper" is to arbitrarily make them appear so through the manipulation of assumptions as to mortality, interest, withdrawals, disability, Social Security, administrative expenses, rate of retirement, and other factors used to estimate liabilities. These assumptions hinge upon judgment. Those exercising that judgment should do so only after they are thoroughly informed as to the alternatives possible and their effect. Those seeking "cheap" pensions unfortunately may find some who are willing to accommodate their desires.

Among other factors that are equally significant, those relating to funding have gained certain controversial prominence in recent months. The issues at Chrysler focused on this point. Chrysler first of-

fered the "pay as you go" method of funding backed by the solvency and integrity of the Chrysler Corporation. Other funding methods are merely ways of setting money aside in advance to anticipate the "pay as you go" payments.

The most commonly known are: (1) *Emerging Cost,* in which the amount required for an employee's benefit is paid at or after the time of retirement—now referred to as the Bethlehem Steel method; (2) *Level Funding,* in which the annual cost is paid each year as it is incurred and the past service liability is funded over a specified period of years in the future—now labeled the Ford method. Under a variation in the Ford method, the annual cost is paid as incurred, but only the interest is paid on the unfunded past service liability. That is now designated as the U. S. Steel method.

The amount of benefits to be paid will be the same under each method, but each may have a different effect upon a company's financial conditions.

It is impractical to evaluate one method of funding without exploring all. Advance funding is largely an adjustment in the element of time. It doesn't change the cost—merely contracts or spreads it. It is not in itself a cost factor, except to the extent that arbitrary decisions as to interest rate and the time over which the past service liability will be paid can make it appear to "increase" or "reduce" costs. Past service liability has confounded many employers and employees. Its mystery makes it loom much larger than it should. It is merely a technical, legal-actuarial label for a segregation of cost. Actually, past service liability is an assessment against future earnings just as annual or normal cost. Even in those instances where only the interest on past service liability is being paid, together with the annual cost, the first benefits paid from the fund are entirely or largely for past service. Regardless of the labels used, benefits are going to be paid in the future and the cost is going to be levied against future earnings.

If employees comprehend that the liabilities of a retirement program are the benefits to be paid in the future and have an opportunity to view them in a realistic perspective, they may begin to accept these premises: (1) The determination of how much future benefit payments can be anticipated must be a management prerogative. (2) A cents-per-hour figure is merely a device for measuring how much money is paid to provide the benefits—it is not the benefits themselves. (3) The ultimate security of any plan is the ability of a company to meet the payments required in the future.

—From *For Your Information* (Edwin Shields Hewitt and Associates, Chicago), April, 1950, p. 4:1.

Does Your Pension Plan Need Amendment?

TODAY THE PENSION MOVEMENT is progressing steadily and soundly, and many plans are performing very satisfactorily. Nevertheless, recent surveys disclose that a high percentage of present-day pension and deferred profit-sharing plans need amendment.

In attempting to consider the problem, the discussion will be clarified if some of the different types of plans are classified, first, as to the type of funding or financing method used and, second, as to the eligibility rules for membership under such plans—since these are two major points influencing current amendments.*

In discussing disadvantages in various types of plans which have caused them to

* Space limitations prevented the inclusion here of all the types of plans classified by the author. Those omitted, however, are briefed in note at end of article.—EDITOR.

operate unsuccessfully, we shall illustrate the points by case studies.

CASE NO. 1: *Level Premium Retirement Insurance Policies—Broad Coverage*

A. *Cost Too High:* This type of funding method is generally twice as costly as a pure pension system which provides the same pension benefits but without the unusually liberal collateral death or severance benefits. An employer can cut his cost to the extent he is willing to reduce these other collateral benefits and expenses and concentrate his limited budget where it is most needed.

B. *Mounting Costs:* The costs of many of these plans have mounted out of proportion to their original cost—particularly in the light of reduced profits—because of increase in members as well as the substantial increase in salary and wage scales. An employer may be forced to trim his plan to meet his increased costs and decreased ability to pay.

C. *Fixed Cost Commitment:* Another objection is that this type of funding calls for level fixed premium obligations in bad years as well as good. A plan may be amended to enable the employer to increase his tax-deductible contributions in peak years, put in average amounts in normal years, and be free to reduce or suspend his contributions entirely in bad years without necessarily interfering with his employee relations or tax position.

D. *Inadequate Pension Benefits:* Frequently, these types of plans provide inadequate pension benefits for long-service superannuated employees and totally disabled employees because so much of the employer's dollar has been absorbed by the cost of large death and severance benefits and high expenses. With the same dollar outlay, the employer can substantially increase his pension benefits, by a corresponding reduction in death or severance benefits, or he can double the pension benefits if he is willing to eliminate entirely the collateral death and severance benefits and reduce expenses.

E. *Older Employees*: Often the use of these policies has caused the elimination of older employees from participation or current retirement and hence has failed to solve the present pension problems of the organization. A change in funding method generally can take care of the current pension problem—without necessarily increasing the employer's immediate outlay.

F. *Flat Benefit Plans:* This type of funding is the prime mover in the promotion of the flat benefit type of plan such as one that provides 30 per cent of pay. This type of plan favors short-service as against long-service employees. Usually, for the same employer cost, the plan may be amended to meet the time-honored standards of reward for long service.

CASE NO. 2: *Deferred Distribution Profit Sharing Plan*

A. *Inadequate Pension Benefits:* The main objective to this type of plan is that it usually does not produce an adequate pension for employees who will retire during the first 15 to 25 years after it is first established. Hence, if the organization has the problem of superannuated or disabled employees, a pension plan is needed. Moreover, it is a simple matter to make the transition to a pension plan with full preservation of the foundation already established.

B. *Spread of Employer's Dollar:* Under a typical deferred distribution profit sharing plan, the employer's dollar gets spread out about as follows: for pensions, 50¢; for death benefits, 25¢; and for severance benefits and expenses, 25¢. Thus, if an employer wants a deferred compensation bonus type of plan it may work out—but if he wants to concentrate on the solution of his pension problems of superannuated or disabled employees—the profit sharing plan needs to be amended into a pension plan.

C. *No Substitute for the Pay Envelope:* Employers have found that deferred profit sharing plans have not been a satisfactory substitute for take-home pay. They had to meet current wage problems by increased take-home pay and, in addition, found a bona fide pension plan was necessary to meet current pension problems.

D. *Fact-Finding:* Another objection, which applies particularly to the closely-held corporations, is that these types of

plans may furnish the channel for a fact-finding fishing expedition into corporation profits, reserves, etc., by a disgruntled employee or his union representative.

E. *Flexibility Maintained:* The amended pension plan generally can maintain flexibility in gearing the employer's contributions substantially to his ability to pay.

F. *Supplementary Plan:* Thus, where possible, it may be concluded that deferred profit sharing plans are splendid as a supplement to—but not a substitute for—a sound pension plan.

CASE NO. 3: *Deferred Group Annuity—Broad Coverage*

Generally, this funding method has been found satisfactory.

A. *Inadequate Pension Benefits:* This type of funding has sometimes resulted in inadequate pension benefits, particularly for past service, because of the high initial accrued liability for past service. This problem has been accentuated by the recent inflation period whereby the original benefits become more out of line with current living costs.

B. *High Initial Outlay:* Usually this type of plan calls for a higher initial outlay than would be required under deposit administration group annuity or self-administration. This too may have caused modest pension benefits when the plan began.

C. *Fixed Cost Commitment:* Fixed cost commitments are objectionable to companies with highly fluctuating earnings, particularly if increased benefits are needed.

D. *Total Disability Benefits:* These plans, almost invariably, fail to solve the employer's problem of gracefully retiring long-service totally disabled employees.

The Bureau of Internal Revenue requires satisfactory proof that amendments do not represent a prohibited curtailment or termination unless due to "business necessity." However, an employer who has bona fide reasons for making the changes indicated generally should be able to obtain the Bureau's approval. Of course, no major amendments should be made without prior Bureau approval.

Amendments at the proper time may prevent terminations. It is obviously desirable to do all that is possible to prevent termination of plans once they are established.

EDITOR'S NOTE: This article also classifies Case No. 1A: Level Premium Retirement Insurance Policies—Limited Coverage (all objections in No. 1 apply); Case No. 3A: Deferred Group Annuity—Limited Coverage (subject to same weaknesses as type No. 3); Case No. 4: Self-Administration (Trusteed-Securities-Invested Fund) (generally satisfactory, but pension benefits inadequate because of inflation); Case No. 5: Combination Ordinary Life and Self-Administration (Aux. Invested Fund) (present methods of handling by insurance companies make this subject to most of same objections as Nos. 1 and 1A); Case No. 6: Group Permanent Retirement Income (subject to most of same objections as Nos. 1 and 1A); Case No. 7: Deposit Administration Group Annuity (generally satisfactory; major fault of some plans: benefits may need to be liberalized—particularly past-service benefits).

—MEYER M. GOLDSTEIN in *Private Benefit Programs and Growing Labor-Welfare Demands* (published by *The Journal of Commerce,* New York). 28 pages.

Americans Deep in Debt, But Earnings Are High

INDIVIDUAL DEBT has more than doubled since the war ended. It's about twice what it was at the end of the profligate twenties. This rush into debt has had a lot to do with solid, unwavering thrust of purchasing power that stopped the recession of 1949 and keeps the present boom going.

At the same time, Americans actually are carrying their debt-load more comfortably than in any reasonably prosperous prewar year. Individuals can go a good deal deeper into hock before they have to pay out as large a share for interest and amortization charges as they did in 1940 and 1941.

Despite taxes, the income available to service consumer debt is ever so much larger than it was in the thirties. At the same time, it costs a lot less to service a dollar of debt: Interest rates are lower; and the 20-year and 25-year amortizing mortgages on

homes which are standard today are far easier to deal with than the short-term mortgages common in the twenties and early thirties.

Corporations are in even better shape. Since the end of the war, corporate debt has risen nearly 50 per cent to something between $50 billion and $55 billion. But that's been paced amost exactly by the growth in corporate earnings (before taxes) from which the debt is serviced—a rise from $19.7 billion in 1945 to about $28.6 billion last year.

As compared with 1929, the corporate debt load is fantastically light. The total debt is now about 20 per cent higher than it was then; but it's supported by nearly three times the earnings and is carrying only about half the interest.

In the best shape of all is the farmer who, like everyone else, finds his interest rates easier and his income higher than in prewar years. But unlike anyone else, his total debt is actually lower. In the early thirties, nearly a quarter of farm income used to go for payments on mortgages. Today the figure is 4.7 per cent.

—*Business Week* 3/25/50

Centsless Bookkeeping Cuts Accounting Payroll

FOR MOST PURPOSES, round dollar amounts are all that any business man needs to know. Keeping track of the cents adds two extra digits to every figure, clutters up the adding machines, increases danger of error. So says *Business Week* in a recent article which goes on, as follows, to describe the latest and most enthusiastic assault on the decimal —that of the Dravo Corporation of Pittsburgh*:

Six months ago, Dravo set up an accounting system it calls "penny elimination" or "centsless accounting."

The week following the year-end closing of the books, the firm figured it had cut the accounting payroll 9 per cent.

There's nothing really new about Dravo's approach. Bethlehem Steel adopted the same system over 20 years ago and has been living happily with it ever since. But Dravo is still full of the missionary spirit.

The fundamental idea of penny-elimination accounting is to round figures to the nearest dollar. (If you have a number ending in exactly 50 cents, round it to the nearest even dollar.)

In Dravo's case, the average bookkeeping entry in dollars and cents runs to five figures. Dropping the cents cuts it to three digits, lopping off 40 per cent of the bookkeeper's work.

In theory, that's fine. But in practice, there are plenty of hitches. Dravo does a varied line of business, ranging from heavy construction on contract to manufacture of industrial equipment. For purposes of internal control the books have to be kept balanced in the best double-entry tradition. And to keep banks and suppliers happy, cash accounts and payments have to figure out to the penny.

The trick, as Dravo sees it, is to keep a few key accounts on a dollars-and-cents basis, put everything else into rounded dollars. To make everything balance out, the company carries a "penny elimination" account. Any variance between the rounded accounts and the dollars-and-cents accounts is charged up to penny elimination.

After five months of operation, Dravo had a total variance of only $233.27 to charge off.

* February 11, 1950.

AN ESTIMATED four to six million dollars a year is lost by banks through internal theft by officers and employees. Each year bank embezzlers seem able to conceal their peculations for longer periods. Today the average bank embezzlement extends over a period of more than 10 years. According to the Comptroller of the Currency, over one-third of the 594 failures of national banks over a 58-year period may be attributed to criminal acts.

—LESTER A. PRATT in *Accounting Forum* (Accounting Society of the City College of New York School of Business and Civic Administration)

The Modern Annual Report: Keystone of Stockholder Relations

OVER THE PAST TWO DECADES, the ownership of America's corporation has been gradually changing hands. It has been passing from the control of a relatively small number of substantial investors into the hands of hundreds of thousands of small investors representing people from every walk of life.

Management techniques in handling shareholder relations have been adapted over the years to keep pace with this trend. The corporation's account of stewardship now is addressed largely to people who are unable to keep informed on the progress of their companies during the course of the year Thus the keystone of the stockholder relations program is the corporation's annual report; and it must be attractive in its presentation, simplified in its explanations, and easy to understand, if the truth about the management's progress and policies is to be put across to the actual owners of the enterprise.

Before deciding on the variety of the content or the style and character of the format of the annual report, it is advisable for those who are to prepare it to have some knowledge of the quality or intelligence level of the readership. Corporations that have enjoyed broad expansion in the number of their stockholders usually address the annual report to the median level of intelligence—sometimes described as the "average" newspaper reader, a person who has had more than a grammar school education (two or three years of high school, business college, or trade school). And when the annual report brochure is humanized to a point where it will be understood by the small investor, the management then finds that the same booklet will serve the needs and requirements of its employees and of many others who have an interest in the corporation's affairs, or are important as opinion-forming groups and should be given an opportunity to read the report.

Physical requirements, trim size, and number of pages of the annual report will depend upon these factors:

(1) type of industry represented (manufacturing, distribution, transportation, etc.); (2) size of corporation (sales volume, total assets, number of stockholders and employees); (3) readership to which the report will be sent (whether only stockholders, or also employees and others); (4) desired life of the annual report (whether it is a year-end review to be read and discarded, or a "yearbook" to be retained for reference, and sent to new stockholders and employees throughout the year).

Whenever possible, the annual report should have a dominant theme that will arouse reader attention and sustain interest throughout the booklet. A round-number anniversary of the founding of the corporation provides the opportunity to tie in all background statistics and charts with the same number of years, and to present a brief history of the organization. A "silver" (25) or "golden" (50) anniversary number of the report permits wide range of treatments. Lacking an anniversary, the keynote might be some outstanding event of the past year that can be dramatized.

The content of any corporation annual report will follow a basic pattern, but the arrangement of the material can be adjusted to suit management preferences. In humanizing the report, it is well to feature in the front portion the narrative, which lends itself to dramatization by means of photographs, pictorial graphics, maps, and other appropriate illustrations. Statistical and tabular matter should be subordinated in the back pages.

There is an almost unlimited opportunity to interpret every phase of a corporation's operations and records by means of a pictorial graphic or line-and-bar chart. Caution must be exercised to maintain the simplicity of each chart by including in one chart only related data, and not attempting to cover too many kinds of statistics at one time. Complicated charts

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From "Stockholder Relations" by Weston Smith in *Public Relations Handbook.* Edited by Philip Lesly. Copyright 1949 by Prentice-Hall, Inc., 70 Fifth Ave., New York 11, N. Y. 904 pages. $10.00.

often defeat their purpose by confusing the reader; moreover, there is danger of misunderstanding when trend lines or characters are not clearly identified. All captions, subheadings, and numbers must be in type large enough to see without a magnifying glass, and care should be taken in any photo reduction not to make any of the data undecipherable.

An accumulation of both news and commercial photographs during the year will usually build up an ample supply for illustrating the annual report. Large corporations can well afford to hire a special photographer to take a series of views of its plants, operations, and products, and thus build a morgue that can be drawn on for several years. But such pictures should not be "head-on" shots—they should be taken with some imagination, possibly from an angle or showing action. Buildings can be taken at different seasons of the year, or photographed with the employees flooding in or out. Products should be shown in actual process of manufacture or in use after they have been sold, with the worker or user in action. An increasing number of annual reports illustrate the president's letter with an informal photograph of the chief executive, often at his desk or making an inspection tour around the plant. A picture of the board of directors in session provides an excellent opportunity to identify the management and executive officers. And many reports today run a series of individual photographs of the board members and executive officers with a thumbnail biographical sketch of each.

In recent years many reports have included actual samples of products "tipped" in on the pages of inside covers —such as swatches of fabrics, carton board, and dress patterns. Other reports have utilized their products for the cover, including wallpaper, boxboard, and aluminum ink. The impact of these innovations to the annual report usually has been reflected in a large increase in the response from stockholders, and the additional publicity obtained for the report in the financial pages of newspapers and in trade publications has generally compensated for the extra expense.

An informed "stockholderate"—to coin a term—may well prove the strongest bulwark management can develop to assure the continuance of our form of government. Though the annual report is only a *part* of a well-rounded campaign to win and maintain shareholder confidence and public confidence, it is a vital part. The management that spends enough time and money to tell its story effectively in the annual report is today investing not only in its own future but in the future of the private enterprise system.

Survey on Sources of Credit Information

CHARACTER AND PAYMENT RECORD are the most important kinds of credit information. Mercantile and retail credit managers agreed on this point when queried recently by Robert S. Hancock of the University of Illinois in a survey of sources of credit information. Hancock surveyed 572 credit men, including 371 mercantile and 201 retail credit managers, receiving 349 responses. His findings are reported and analyzed in a bulletin recently published by the Business Management Service of the U. of I. College of Commerce and Business Administration.*

Five most important types of credit data, in the opinion of the mercantile credit managers, are character, payment record, financial statement, past experience, and history and antecedents. Retail credit men rated the personal interview fifth in importance, and placed less reliance on the financial statement since that type of credit information is not usually considered in retail transactions.

In selecting sources of credit information, both mercantile and retail credit men place much emphasis upon accuracy, content of reports, speed of reporting and trade coverage.

* *Sources of Credit Information,* Robert S. Hancock, Business Management Service, Bulletin 402, University of Illinois, Urbana, Ill. Gratis.

Insurance Management

Is This the Time to Start a Pension Plan?

THREE PRINCIPAL FACTORS are currently affecting pension developments. These are (a) the decline in some corporate earnings with the leveling-off of economic activity; (b) the inclusión of employee benefit programs in collective bargaining; (c) the various proposals before Congress for an increase in Social Security benefits and taxes.

It is the purpose of this article to examine each of these factors in relation to the question posed.

The economic adjustment currently taking place is a healthy development insofar as pension planning is concerned, since it may prevent some companies from embarking upon ill-advised programs. Some of the overly-ambitious programs adopted during the high tax and earnings years of the war have since required revision.

In the installation of a plan, flexibility as to its provisions as well as to its financing is of paramount importance. If the company has latitude in the contributions which it may make from year to year, the effect of varying economic conditions on sound operation will be minimized. The company must also make certain that it has the necessary freedom to adapt the plan to changing conditions.

If a particular company is justified in adopting an employee retirement plan, now is a better time than during a period when perspective may be destroyed by a serious distortion in corporate earnings. Unnecessary delay can be costly, not only in the financing of the plan but also in employer-employee relations. The earlier a retirement plan is adopted, the lower will be the required contributions and the more equitable their distribution over different generations of stockholders.

Many employers today are wondering what retirement plan pattern will emerge from collective bargaining. The type of plan most commonly advocated by the unions is one calling for a flat benefit, such as $100 a month upon retirement between age 60 and age 65. When considered in relation to wages, periods of service rendered by many individual employees, and the benefits available from Social Security, such a plan may be unduly generous and costly.

The more conventional type of retirement plan relates benefits both to length of service and employee earnings. This type generally involves a unit of credit for each year of service rendered—such as 1 per cent of earnings during each year. To take care of borderline or hardship cases, a minimum benefit may also be provided. One advantage of such a formula is that the cost of a plan can be related directly to the benefits accruing from year to year. Furthermore, the relationship of benefits to employee earnings and length of service with a given employer is in accórdance with sound principles of pension planning, and more equitable to the employer who is expected to foot the bill.

Companies should study now the various union proposals, and at the same time explore the type of plan they feel they can maintain. Unless an employer is prepared to discuss and to handle this subject with assurance, he may find himself forced to decide hastily and to act perhaps unwisely at the last minute.

Present indications are that the benefits of retirement plans already in effect, or of those currently being adopted, will probably not require much change by reason of a Social Security revision. In cases where a truly generous plan is in effect today, an increased scale of Social Security contributions might necessitate a future reduction in company contributions to its plan. On the other hand, there are many plans that would require no modification whatsoever.

Uncertainty as to Social Security devel-

opments is not a sufficient reason for deferring action on a pension plan at this time. The plan may be, and should be, written in such a way as to permit automatic adjustment of benefits or costs to any change in the Act. There is also much to be said in favor of a company's liquidating a substantial portion of its own plan's "past service" liability while Social Security taxes are still low.

After considering all the factors in relation to its own problems, each company must answer for itself the question "Is This the Time to Start a Pension Plan?" There is no doubt, however, that now is the time for management to give serious study to the subject of pensions in preparation for developments which are practically certain to come.

—BY FRANK L. GRIFFIN, JR. *Private Benefit Programs and Growing Labor-Welfare Demands* (published by *The Journal of Commerce*, New York). 28 pages.

The Cost of Welfare Plans

INDUSTRIAL RELATIONS PEOPLE, labor negotiators, and executives who are concerned with personnel problems frequently ask, "What kind of insurance package can be purchased for, say, 5 cents an hour, divided evenly between employees and the company?" This article will attempt to set out some description of benefits and appropriate arithmetic in the case of group insurance alone, omitting entirely the subject of pensions.

The initial costs vary in accordance with a number of factors. As is well known, group life insurance premiums vary from 50 cents per month per $1,000 at age 20 to $3.76 per month per $1,000 at age 65, assuming no industry of occupational hazard is involved. Premiums for sickness and accident benefits are based on the percentage of benefits for female employees, the number of weeks for which bene-

BRIEF ILLUSTRATION OF POSSIBLE "5¢ PACKAGE"

(*Bases:* 1,800 Hours—Average Earnings of $1.50 per Hour)

		In Cents per Hour	
	Benefit	*Gross*	*Net**
Life Insurance	$3,000.	2.0¢	1.7¢
Accident & Health—Weekly Benefit† (1-8-26 Weeks)	$ 26.	1.3¢	1.1¢
Personal Hospital—Daily Benefit† (70 days—$70 Special Services)	$ 7.	0.7¢	0.6¢
Dependent Hospital (70 days—$70 Special Services)	$ 7.	1.2¢	0.9¢
Paid-Up Life Insurance	$1,000.	0.7¢**	0.7¢
Total		5.9¢	5.0¢

* Assumes a 15 per cent dividend.
† Non-occupational disabilities.
** Gross cost only shown since dividends would probably be nil for some time until experience develops.

By Edwin C. McDonald. Reprinted from *Central Hanover Pension Bulletin*, May, 1950, published for Central Hanover Bank and Trust Company, New York, and copyrighted 1950, by Prentice-Hall, Inc.

	Plan I	Plan II	Plan III	Plan IV	Plan V
Life	$2,000	$1,500	$2,000	$2,000	$3,000
Accidental Death & Dismemberment		$1,500	$2,000	$2,000	$3,000
Accident & Health Weekly Benefit (1-8-26)	$ 28	$ 26	$ 25	$ 35	$ 35
Hospital Expense (70-days)					
For employees					
Room & Board—					
Daily Benefit		$ 6	$ 6	$ 8	$ 8
Special Services		$ 60	$ 60	$ 80	$ 80
For Dependents					
Room & Board—					
Daily Benefit		$ 6	$ 6	$ 6	$ 8
Special Services		$ 60	$ 60	$ 60	$ 80
Surgical Operations					
For Employees			$ 150	$ 150	$ 225
For Dependents				$ 150	$ 225
Cost per hour*					
2000-hour year	2.1¢	3.1¢	3.6¢	4.7¢	5.9¢
1800-hour year	2.4¢	3.5¢	4.0¢	5.2¢	6.5¢
Per cent of pay*					
2000-hour year	1.4%	2.1%	2.4%	3.1%	3.9%
1800-hour year	1.6%	2.3%	2.7%	3.5%	4.3%

* Assumes a 15 per cent dividend.

fits are to be payable, the waiting period selected (which means the number of days before benefits will be payable) and whether or not maternity benefits are included. Most of these factors also apply to other forms of disability insurance, including hospital, surgical and medical expense.

In order to afford a starting place for the calculation of a program of employee benefits, we may assume an average premium age of about 45 years for life insurance. We may also assume that there are very few female employees (which allows us to use minimum rates) and that maternity benefits are included. A sickness and accident plan has been used which provides for sickness benefits beginning on the first day and payable for 26 weeks. The hospital expense coverage offers a 70-day plan with 10 times the daily benefit for special hospital services for both employees and dependents. It is assumed that 70 per cent of the enrolled employees have dependents.

Having determined upon a plan and its approximate annual cost, we can readily determine the cost per hour per employee. Obviously if a basis of 2,000 instead of 1,800 working hours is assumed, cost per hour will be lower for the first figure even though the total annual cost remains the same.

An idea of the variations of the nature and amount of benefits and in the costs per hour and as a per cent of pay, is given in the above illustration of five different plans.

Plan I—Geared to low net cost of about 2 cents per hour. While it illustrates the effect of providing life insurance and the weekly benefits on a fairly adequate level, it eliminates any hospital expense benefit.

Plan II—Offers lower benefits than Plan I, but includes hospital benefits for employees and their dependents. The total net cost is only 1 cent per hour more than Plan I.

Plan III—A good plan as it stands, but an additional $1,000 of life insurance would be well-advised, adding to the total net cost only about ½ cent per hour on a 2,000-hour basis.

Plan IV—A fairly complete plan. An additional $1,000 life insurance might well be added and the surgical benefits increased with the resulting increase per hour of approximately 1 cent.

Plan V—A complete plan which should interest employees and towards the cost of which a typical group should be willing to pay 2 or 3 cents per hour.